

351.726 Montana.  
Gires Governor's Revenue  
1988 Estimating  
Revenue  
estimates, fiscal  
years 1989-1990-  
1991

STATE DOCUMENTS COLLECTION

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THE STATE OF MONTANA

# GOVERNOR'S Revenue Estimating Advisory Committee

REVENUE FOR FISCAL YEAR  
Fiscal Year 1989-1990-1991

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Revenue estimates, fiscal years 1989-199



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**REVENUE ESTIMATING ADVISORY COUNCIL**

The Governor created the Revenue Estimating Advisory Council (REAC) by Executive Order in April of 1986. The purpose of the council was to develop economic assumptions necessary to forecast the major sources of general fund and state special revenues of the State of Montana. The Office of Budget and Program Planning (OBPP) was assigned to staff the council.

The council held public hearings on June 9th and 10th and October 25th to receive testimony from industry representatives, economists, university faculty, state agency officials and legislative staff. This process insures that the steps necessary to develop economic assumptions and ultimately the associated revenue estimates is an open public process. The input of public as well as private sector experts should improve the accuracy of the assumptions and the revenue estimates that are developed. In addition, the council focuses only on revenue assumptions which enables the legislature to devote more time to determining the spending priorities of the state rather than debating how much revenue is available.

The economic assumptions as adopted by the council are presented in the following sections. The Governor's Executive Budget includes revenue estimates based on these assumptions. These same assumptions will be used to calculate tax policies proposed by the Governor and in the preparation of fiscal impact statements.

**Membership : Revenue Estimating Advisory Council**

Mr. William Mathers, Miles City, Chairman  
Mr. Fritz Tossberg, Hamilton  
Mr. George Ruff, Helena  
Ms. Nancy Nicholson, Helena  
Mr. Cal Robinson, Kalispell

**Staff : Revenue Estimating Advisory Council**

Mr. David L. Hunter, Budget Director  
Mr. Terry W. Johnson  
Ms. Mary LaFond

### Revenue Estimating Advisory Council Economic Assumptions

Year	Assumption	CY/FY 86	CY/FY 87	CY/FY 88	CY/FY 89	CY/FY 90	CY/FY 91
CY	Oil Production (Millions)	26.525	23.961	22.500	21.500	20.000	19.000
CY	Oil Price	\$13.518	\$16.631	\$14.500	\$15.000	\$15.500	\$16.000
CY	Natural Gas Production (M MCF's)	39.444	39.690	40.420	39.447	38.524	38.135
CY	Natural Gas Production (M NGL)	4.972	9.491	9.666	9.433	9.212	9.119
CY	Natural Gas Price (MCF's)	\$2.153	\$1.782	\$1.803	\$1.792	\$1.875	\$1.980
CY	Natural Gas Price (NGL)	\$0.278	\$0.223	\$0.225	\$0.224	\$0.234	\$0.247
CY	Coal Production (Millions)	32.416	32.847	34.428	31.000	29.633	30.833
CY	Coal Price	\$8.387	\$8.240	\$7.769	\$7.687	\$7.780	\$7.780
CY	Coal Tax Credits (Millions) Claim in (t+1)	\$3.626	\$4.387	\$5.800	\$4.357	\$2.764	\$1.842
CY	Copper Production (M lbs)	42.832	107.630	134.612	128.290	113.990	114.773
CY	Gold Production (M ozs)	0.187	0.232	0.264	0.302	0.300	0.302
CY	Silver Production (M ozs)	3.691	6.419	5.981	5.954	6.079	6.121
CY	Lead Production (M lbs)	0.407	9.200	15.400	15.400	15.400	15.506
CY	Zinc Production (M lbs)		16.158	53.000	53.000	53.000	53.364
CY	Molybdenum Production (M lbs)	2.625	7.969	11.426	11.898	12.074	12.157
CY	Palladium Production (M ozs)		0.084	0.160	0.150	0.182	0.183
CY	Platinum Production (M ozs)		0.024	0.047	0.044	0.054	0.054
CY	Copper Price	\$0.506	\$0.619	\$0.850	\$0.850	\$0.600	\$0.625
CY	Gold Price	\$369.599	\$450.619	\$425.000	\$425.000	\$450.000	\$450.000
CY	Silver Price	\$5.270	\$6.088	\$5.900	\$6.250	\$6.500	\$6.500
CY	Lead Price	\$0.083	\$0.379	\$0.320	\$0.320	\$0.320	\$0.320
CY	Zinc Price		\$0.419	\$0.430	\$0.420	\$0.420	\$0.420
CY	Molybdenum Price	\$2.675	\$2.438	\$3.200	\$3.300	\$3.300	\$3.300
CY	Palladium Price		\$122.790	\$123.830	\$124.400	\$124.400	\$124.400
CY	Platinum Price		\$498.770	\$537.500	\$550.000	\$550.000	\$550.000
FY	Forest Receipts (Millions)	\$5.922	\$6.823	\$6.500	\$6.892	\$5.689	\$5.391
	Montana Population July 1 (Thousands)	817.000	809.000	812.000	816.000	821.000	826.000
	MT Population $\geq$ 16 July 1 (Thousands)	613.000	610.000	613.000	616.000	621.000	625.000
	MT Population 18-24 July 1 (Thousands)	89.000	85.000	81.000	78.000	75.000	72.000
CY	CPI Percent Change	1.950%	3.650%	4.140%	4.650%	4.850%	5.320%
CY	GNPD Percent Change	2.700%	3.250%	3.140%	4.610%	4.490%	4.670%
CY	PCE Percent Change	2.510%	4.460%	4.100%	4.900%	4.900%	5.190%
CY	Short-Term Interest Rate	6.230%	6.370%	7.500%	7.500%	7.100%	6.800%
CY	Long-Term Interest Rate	8.980%	9.490%	10.140%	9.000%	8.750%	8.750%
CY	Prime Interest Rate	8.330%	8.210%	9.440%	11.240%	9.940%	8.900%
FY	Treasury Cash Average Balance (Millions)	\$205.765	\$232.990	\$222.374	\$190.993	\$204.377	\$205.489
FY	TRANS Issue (Millions)	\$46.000	\$83.200	\$56.000	\$0.000	\$0.000	\$0.000
FY	Permanent Trust Bond Calls (Millions)	\$5.464	\$4.044	\$0.614	\$0.000	\$0.000	\$0.000
FY	Education Trust Bond Calls (Millions)	\$1.983	\$1.226	\$0.218	\$0.000	\$0.000	\$0.000
FY	Common School Trust Bond Calls (Millions)	\$3.353	\$2.537	\$0.527	\$0.000	\$0.000	\$0.000
FY	Resource Ind. Trust Bond Calls (Millions)	\$0.644	\$0.738	\$0.000	\$0.000	\$0.000	\$0.000

# ECONOMIC ASSUMPTIONS

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Year	Assumption	CY/FY 86	CY/FY 87	CY/FY 88	CY/FY 89	CY/FY 90	CY/FY 91
FY	Park Acq. Trust Bond Calls (Millions)	\$0.718	\$0.195	\$0.000	\$0.000	\$0.000	\$0.000
CY	MT Personal Income (Billions)	\$9.583	\$9.992	\$10.300	\$11.000	\$11.500	\$12.000
CY	MT Non-Farm Employment Thousands)	275.400	274.100	275.500	277.100	278.600	280.400
FY	Income Tax Audits (Millions)				\$10.307	\$10.786	\$11.266
CY	Individual Federal Tax Reform (Millions)		\$30.000	\$39.233	\$48.120	\$58.079	\$69.383
CY	MT Corporate Taxable Income (Millions)	\$379.293	\$565.967	\$546.698	\$559.286	\$581.776	\$641.576
CY	Corporate Federal Tax Reform (Millions)		\$4.660	\$5.890	\$6.350	\$6.750	\$7.175
FY	Corporation Tax Audits (Millions)	\$10.312	\$9.523	\$9.203	\$7.000	\$7.000	\$7.000
FY	Liquor Unit Sales (Millions)	5.988	5.493	5.094	4.723	4.379	4.060
FY	Wine Unit Sales (Millions)	0.299	0.263	0.180	0.160	0.142	0.126
FY	Liquor Cost Per Unit	\$4.398	\$4.563	\$4.644	\$4.700	\$4.758	\$4.816
FY	Wine Cost Per Unit	\$2.883	\$3.001	\$3.161	\$3.328	\$3.471	\$3.619
FY	Liquor Division Budget (% Change)	-1.310%	-2.030%	-5.100%	-5.310%	-1.900%	-1.250%
FY	Cigarette Packs (Millions)	80.897	77.690	72.909	69.194	65.956	63.033
FY	Tobacco Value (Millions)	\$5.500	\$5.514	\$5.948	\$6.152	\$6.315	\$6.469
FY	Net/Gross Proceeds (Millions)	\$768.271	\$705.064	\$383.272	\$410.315	\$360.798	\$309.763
FY	All Other Valuation (Millions)	\$1,601.862	\$1,555.698	\$1,594.619	\$1,532.599	\$1,534.301	\$1,540.088
FY	Institution Reimbursements (Millions)	\$14.166	\$14.216	\$15.395	\$16.090	\$12.211	\$12.352
FY	Insurance Revenue Growth (% Change)	12.410%	6.340%	60.360%	-27.610%	5.800%	5.800%
FY	Police & Fireman Retirement (Millions)	\$5.009	\$5.426	\$5.626	\$5.826	\$5.989	\$6.149
FY	Telephone Taxable Income (% Change)	14.790%	2.300%	4.880%	4.890%	4.520%	3.910%
FY	Kilowatt Hours Produced (Millions)	14,538.496	17,077.962	18,007.053	18,835.723	19,384.688	19,610.710
FY	Inheritance Tax (Millions)	\$8.365	\$7.212	\$8.745	\$8.727	\$8.905	\$9.151
FY	Drivers' License Fees (Millions)	\$1.961	\$1.972	\$1.939	\$1.972	\$1.943	\$1.997
FY	Barrels of Beer (Millions)	0.726	0.712	0.697	0.689	0.691	0.698
CY	Freight Line Earnings (Millions)	\$21.728	\$22.040	\$22.357	\$21.477	\$20.308	\$21.460
FY	Liters of Wine (Millions)	5.899	6.140	5.812	5.634	5.423	5.219
FY	Poker Total Receipts (Millions)	\$3.498	\$4.788	\$7.684	\$10.660	\$10.766	\$10.874
FY	Vehicle Total Receipts (Millions)	\$34.085	\$36.649	\$32.173	\$34.300	\$37.138	\$40.376
FY	Other Receipts (Millions)	\$12.106	\$16.295	\$16.117	\$15.807	\$16.104	\$16.554
FY	Interest & Income Receipts (Millions)	\$37.301	\$35.530	\$34.079	\$32.496	\$33.699	\$34.770

The State of Montana's Budget for the 1990-91 biennium is significantly dependent upon the current and future economic climate of the state, nation and world economies. These conditions not only affect tax receipts; they dictate the costs of goods and services purchased by state government. Clearly, economic assumptions are necessary to formulate a biennial budget.

Economic variables play a crucial role when developing revenue forecasting models. However, recent state legislation has placed greater emphasis on Montana total personal income as a means to limit the growth in state government disbursements. Today levels of disbursements and receipts are significantly influenced by Montana total personal income growth patterns.

The key economic variables that affect state government receipts and disbursements are Montana total personal income, Montana employment levels, inflation rates, energy prices and interest rates. There are many more variables

that influence receipt and disbursement patterns but this list covers the major variables.

In the past, Montana's economy appeared to lag, yet parallel, the national economy. However, for the past decade, Montana's economic upturns and downturns have been more pronounced than the national average. This is due in part to Montana's scarcity of heavy industry and its reliance on the energy sector: oil, coal and natural gas exploration and production.

The 50th Legislature established an appropriation for the Office of Budget and Program Planning to contract with an economic reporting and forecasting firm. Wharton Econometrics was selected for this purpose. In addition, Wharton Econometrics provides short and long-term econometric forecasts to the OBPP and LFA. These forecasts were used by the Revenue Estimating Advisory Council and were incorporated into the Governor's Executive Budget recommendation whenever appropriate.

## PERSONAL INCOME

Montana total personal income is defined as labor income, transfer payments, dividends, interest and rents, less personal contributions for social security. This particular variable is especially critical in the budget process because of its direct effect on state government tax receipts and disbursements. Total personal income not only limits the growth in government disbursements, it also measures the ability of the people of Montana to purchase food, clothing, automobiles and other items. Personal income tax, corporate income tax and many other taxes such as liquor and insurance are affected by the movement in personal income.

From 1970 to 1987, total personal income has increased 306% in Montana versus 356% nationally. The state's per capita income for 1987 was \$12,347 compared with the national figure of \$15,481. As shown in table 1, the Revenue Estimating Advisory Council (REAC) expects Montana's total personal income to continue to lag national income growth. This trend is premised on the impacts of the CY88 drought on the agricultural sector and its residual industries, the depressed energy sector and the general trend to limit wage concessions.

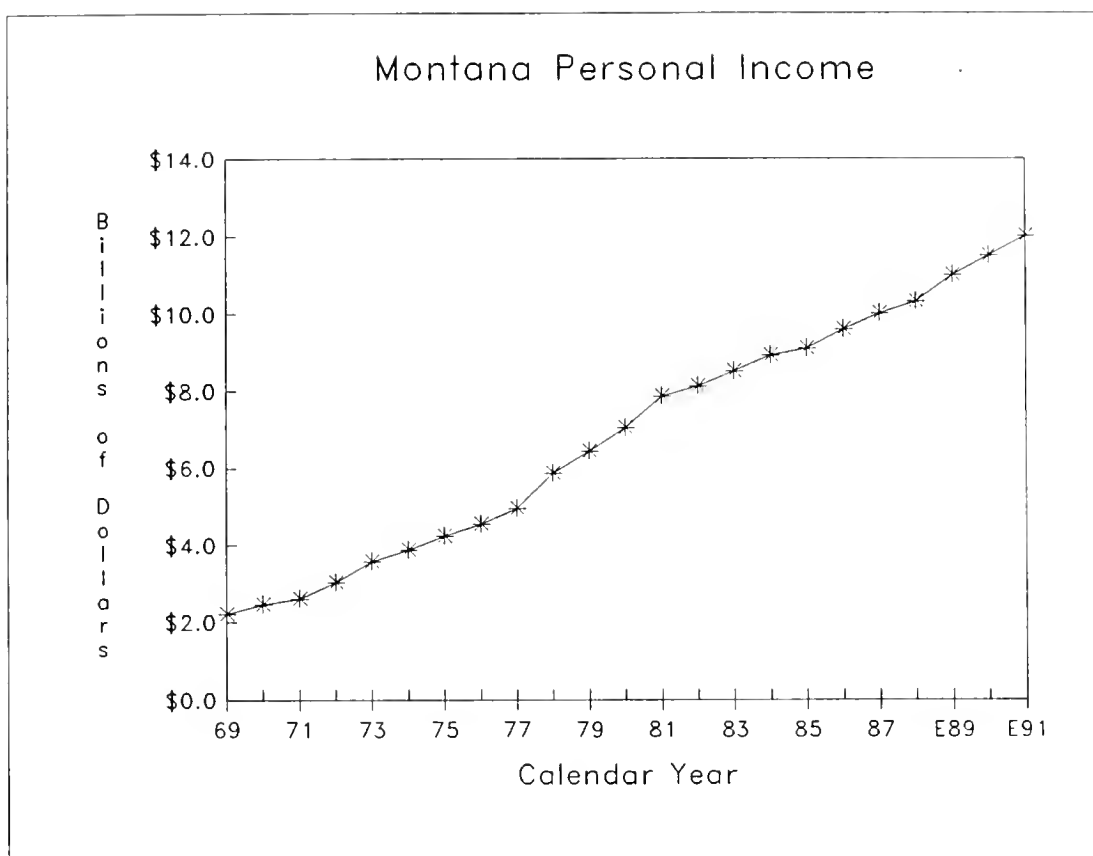
The following tables summarize personal income statistics for Montana and the United States.

TABLE 1  
TOTAL PERSONAL INCOME  
(MILLIONS)

CY	MONTANA		UNITED STATES	
	AMOUNT	% CHANGE	AMOUNT	% CHANGE
1970	2,459.4		825,534	
1971	2,613.7	6.27%	888,536	7.63%
1972	3,044.8	16.50%	976,181	9.86%
1973	3,580.3	17.59%	1,095,289	12.20%
1974	3,866.5	7.99%	1,204,899	10.01%
1975	4,221.7	9.19%	1,308,482	8.60%
1976	4,543.2	7.61%	1,447,002	10.59%
1977	4,951.9	9.00%	1,602,863	10.77%
1978	5,859.8	18.34%	1,806,968	12.73%
1979	6,428.5	9.70%	2,028,510	12.26%
1980	7,039.6	9.51%	2,254,076	11.12%
1981	7,858.1	11.63%	2,514,231	11.54%
1982	8,118.0	3.31%	2,663,432	5.93%
1983	8,503.9	4.75%	2,834,385	6.42%
1984	8,922.3	4.92%	3,101,163	9.41%
1985	9,094.7	1.93%	3,317,239	6.97%
1986	9,582.7	5.37%	3,521,393	6.15%
1987	9,992.0	4.27%	3,768,125	7.01%
PROJECTED				
1988	10,300.0	3.08%	4,054,800	7.61%
1989	11,000.0	6.80%	4,347,000	7.21%
1990	11,500.0	4.55%	4,645,300	6.86%
1991	12,000.0	4.35%	4,982,400	7.26%

Source:

Historical - Bureau of Economic Analysis  
Projected - Revenue Estimating Advisory Council  
Wharton Econometrics



**TABLE 2**  
**PER CAPITA PERSONAL INCOME**

CY	AMOUNT	MONTANA	AMOUNT	UNITED STATES
		% CHANGE		% CHANGE
1970	3,528		4,051	
1971	3,676	4.20%	4,296	6.05%
1972	4,234	15.18%	4,665	8.59%
1973	4,922	16.25%	5,182	11.08%
1974	5,245	6.56%	5,648	8.99%
1975	5,635	7.44%	6,073	7.52%
1976	5,989	6.28%	6,651	9.52%
1977	6,420	7.20%	7,294	9.67%
1978	7,474	16.42%	8,136	11.54%
1979	8,146	8.99%	9,033	11.02%
1980	8,924	9.55%	9,919	9.81%
1981	9,874	10.65%	10,949	10.38%
1982	10,084	2.13%	11,480	4.85%
1983	10,424	3.37%	12,098	5.38%
1984	10,836	3.95%	13,114	8.40%
1985	11,021	1.71%	13,895	5.96%
1986	11,726	6.40%	14,606	5.12%
1987	12,347	5.30%	15,481	5.99%
Average Annual Growth Rate		7.66%		
				8.21%

Source:

Historical - Bureau of Economic Analysis



## EMPLOYMENT

Total state employment measures the ability of the state's economic base to provide jobs for its residents.

When forecasting state revenues, nonfarm wage and salary employment is used as a proxy for employment levels. Even though this statistic does not include all employment, it does provide a more consistent indicator of the labor market.

Employment levels in the state affect total personal income and are also indicative of the state's business activity. The relationship between personal income, consumer spending and, ultimately, corporate profits explains why personal income, corporate income and sumptuary taxes are affected by changes in this variable.

From 1970 to 1987, nonfarm wage and salary employment grew by about 36% or 72,800 jobs. Almost all of this increase was in the wholesale/retail trade and service sectors. Traditionally, these jobs have been at the lower end of the pay scale. In the 1980's the manufacturing, mining, construction, and transportation sectors have suffered decreases in employment. These jobs tended to have higher than average salaries.

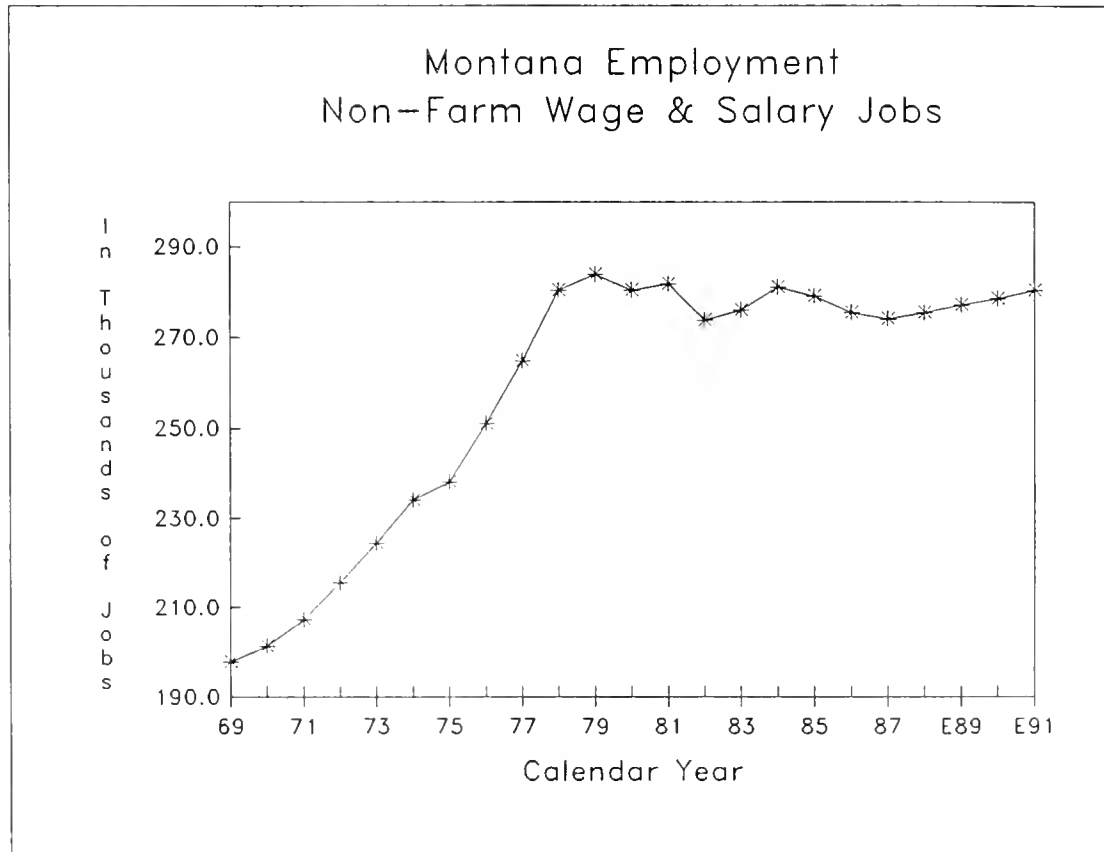
Table 3 provides historical and forecasted values for non-farm wage and salary employment. The council expects employment to increase, but only at about one-third the 1.8% historical rate observed since 1970. Most of the growth is seen in the services sector; offsetting the declines in some of the basic industries.

TABLE 3  
MONTANA EMPLOYMENT

CY	NONFARM WAGE & SALARY EMPLOYMENT	% CHANGE
1970	201,300	
1971	207,100	2.88%
1972	215,400	4.01%
1973	224,400	4.18%
1974	234,000	4.28%
1975	238,200	1.79%
1976	251,100	5.42%
1977	264,800	5.46%
1978	280,400	5.89%
1979	283,900	1.25%
1980	280,400	-1.23%
1981	281,800	.50%
1982	273,700	-2.87%
1983	276,000	.84%
1984	281,100	1.85%
1985	279,100	-0.71%
1986	275,400	-1.33%
1987	274,100	-0.47%
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	PROJECTED	
1988	275,500	.51%
1989	277,100	.58%
1990	278,600	.54%
1991	280,400	.65%

Source:

Historical - Montana Dept. of Labor & Industry  
Projected - Revenue Estimating Advisory Council



## INFLATION

Inflation indices measure the rate of price escalation and/or decrease for goods and services. The most commonly used statistic is the consumer price index which is based on prices of food, clothing, shelter, fuel, drugs, transportation fares, doctors' and dentists' fees and other items.

During high inflationary periods, consumption of goods and services may decline. This not only may decrease employment levels but may discourage business activity because of prohibitive operating costs. Low inflation may result in higher consumption, increased employment and greater business opportunities.

In a majority of cases, inflation rates have some impact on each revenue component. The sources that are especially

affected include personal income tax, public institution reimbursements and severance taxes.

The REAC foresees a moderate rate of inflation during the 1990-91 biennium of roughly 4.8 to 5%. This outlook anticipates: 1) wage negotiations will be sensitive to the need for reasonable compensation because of a highly competitive world market, 2) no sudden or steep increases in energy prices, and 3) food prices will be relatively modest once the effects of the 1988 drought have been channeled through the economy.

Table 4 lists two measures of inflation rates as published by Wharton Econometrics. These national averages are provided because indices for Montana are not available. The projected values are as adopted by REAC.

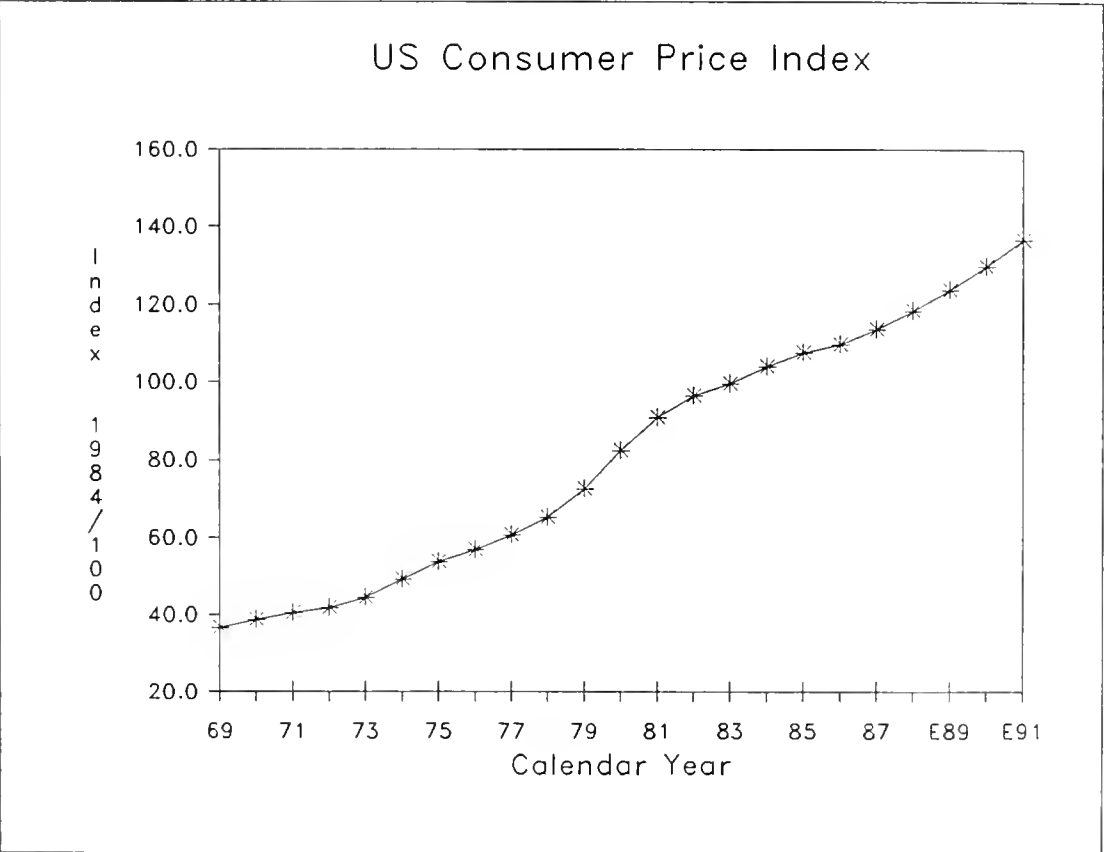
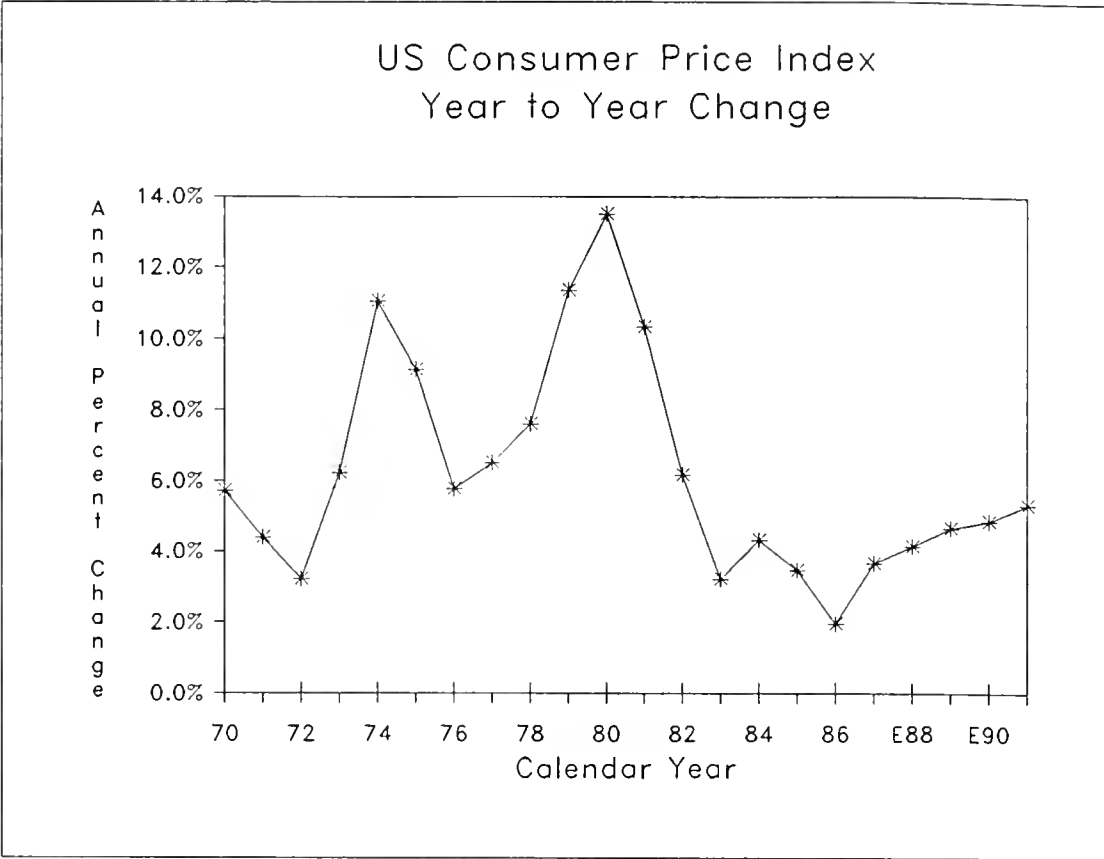
TABLE 4  
MEASURES OF INFLATION

CY	US CPI	% CHANGE	US GNP	% CHANGE
	1984=100		DEFLATOR 1982=100	
1970	38.8		42.0	
1971	40.5	4.38%	44.4	5.71%
1972	41.8	3.21%	46.5	4.73%
1973	44.4	6.22%	49.6	6.67%
1974	49.3	11.04%	54.0	8.87%
1975	53.8	9.13%	59.3	9.81%
1976	56.9	5.76%	63.0	6.24%
1977	60.6	6.50%	67.3	6.83%
1978	65.2	7.59%	72.2	7.28%
1979	72.6	11.35%	78.6	8.86%
1980	82.4	13.50%	85.7	9.03%
1981	90.9	10.32%	94.0	9.68%
1982	96.5	6.16%	100.0	6.38%
1983	99.6	3.21%	103.9	3.90%
1984	103.9	4.32%	107.8	3.75%
1985	107.5	3.46%	111.0	2.97%
1986	109.6	1.95%	114.0	2.70%
1987	113.6	3.65%	117.7	3.25%
PROJECTED				
1988	118.3	4.14%	121.4	3.14%
1989	123.8	4.65%	127.0	4.61%
1990	129.8	4.85%	132.7	4.49%
1991	136.7	5.32%	138.9	4.67%

Source:

Historical - Wharton Econometrics

Projected - Revenue Estimating Advisory Council



## ENERGY PRICES

Montana, as the fourth-largest state in the nation, has a vast potential for oil, coal and natural gas exploration and extraction. Because of this potential and our current level of natural resource taxation, energy prices play a critical role in the budgetary process. Oil, coal and natural gas severance taxes are directly affected by energy prices.

### Oil

The REAC assumes that oil well-head prices will decline from CY87 levels and drift upward throughout the forecast period. However, prices are not expected to reach CY87 levels by CY91. This assumption is based on OPEC's inability to maintain a stable production agreement among member countries at least in the short-term. By CY89 the council expects that the consequences of current overproduction will be realized and the need for restoring production discipline will prevail.

### Natural Gas

Under the Natural Gas Policy Act of 1978, all new gas was deregulated on January 1, 1985. As was anticipated, prices decreased even with deregulation. Primary reasons for this included more competition, contract renegotiations, lower import prices primarily from Canada, and the competitive prices of other fuels. Average natural gas well-head prices are expected to remain constant into CY89 and then begin to increase in CY90 and

CY91. By CY90 the natural gas surplus is expected to begin diminishing and world oil prices are expected to increase. With a more limited supply and more competitively priced fuels, well-head prices should begin to rise.

### Coal

The coal industry in the United States and Montana is heavily dependent upon the demand for electrical power. Slower than expected economic growth at both the state and national levels plus energy conservation have all contributed to electrical usage remaining below expectations.

With lower demand and the competitive prices of other fuels, coal prices have remained soft. These conditions in conjunction with royalty deductions approved by the 48th Legislature, have caused coal prices to decrease since CY83.

Since most of Montana's coal is sold to utilities under long-term contracts, prices are usually allowed to increase by inflation indices specified in the contracts. The REAC assumes that even with inflation around 5%, coal companies will hold prices relatively constant to maintain competitiveness with other fuels.

Table 5 reflects historical and projected energy prices for coal, oil and natural gas. Historical data are as reported on tax returns while projections are as adopted by the REAC.

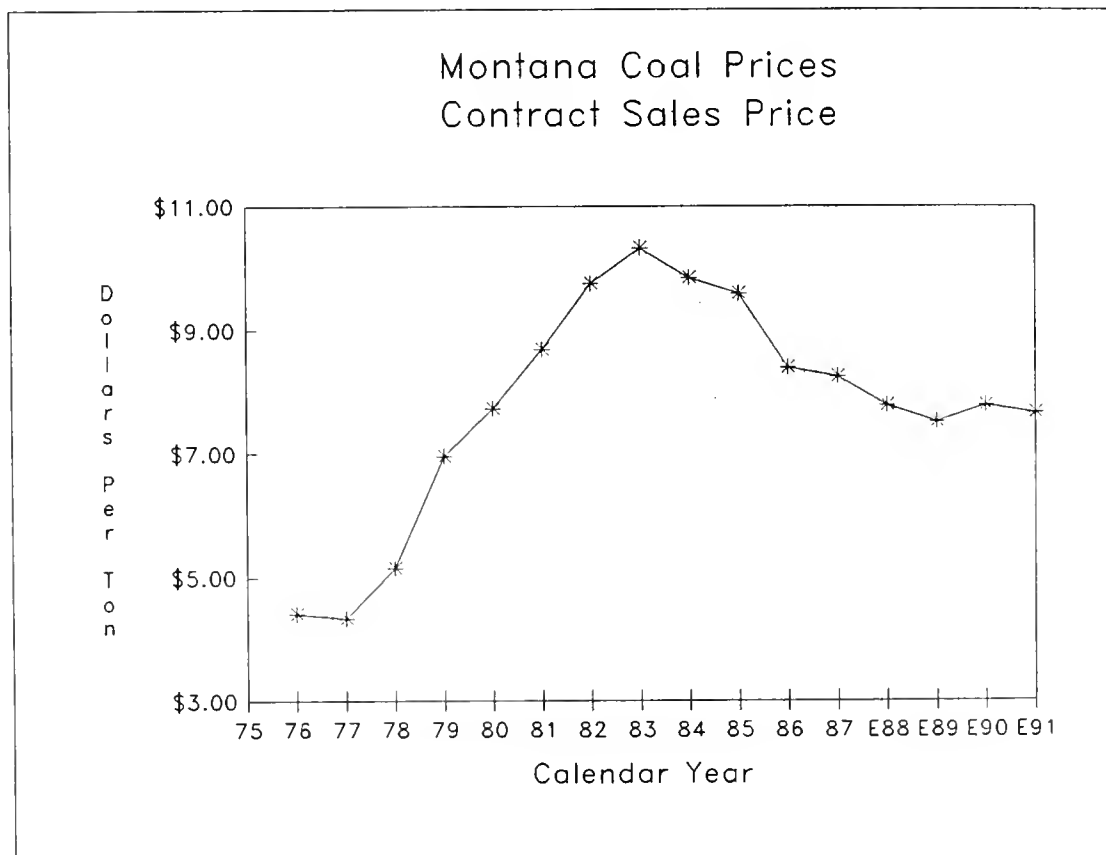
TABLE 5  
ENERGY PRICES

CY	COAL CONTRACT SALES PRICE	% CHANGE	OIL WELL-HEAD PRICE	% CHANGE	NATURAL GAS WELL-HEAD PRICE	% CHANGE
	\$/TON		\$/BARREL		\$/MCF	
1970					.082	
1971					.084	2.44%
1972					.102	21.43%
1973			3.843		.162	58.82%
1974			6.814	77.31%	.257	58.64%
1975	4.224		7.845	15.13%	.394	53.31%
1976	4.415	4.52%	8.411	7.21%	.441	11.93%
1977	4.344	- 1.61%	8.582	2.03%	.735	66.67%
1978	5.154	18.65%	9.253	7.82%	.837	13.88%
1979	6.951	34.87%	12.279	32.70%	1.202	43.61%
1980	7.724	11.12%	22.250	81.20%	1.436	19.47%
1981	8.686	12.45%	34.317	54.23%	1.900	32.31%
1982	9.758	12.34%	31.311	- 8.76%	2.103	10.68%
1983	10.332	5.88%	28.804	- 8.01%	2.403	14.27%
1984	9.846	- 4.70%	28.066	- 2.56%	2.498	3.95%
1985	9.592	- 2.58%	25.243	-10.06%	2.329	- 6.76%
1986	8.387	-12.56%	13.518	-46.49%	2.153	- 7.56%
1987	8.240	- 1.75%	16.631	23.03%	1.782	-17.23%
PROJECTED						
1988	7.769	- 5.72%	14.500	-12.81%	1.803	1.18%
1989	7.508	- 3.36%	15.000	3.45%	1.792	- 0.61%
1990	7.769	3.48%	15.500	3.33%	1.875	4.63%
1991	7.644	- 1.61%	16.000	3.23%	1.980	5.60%

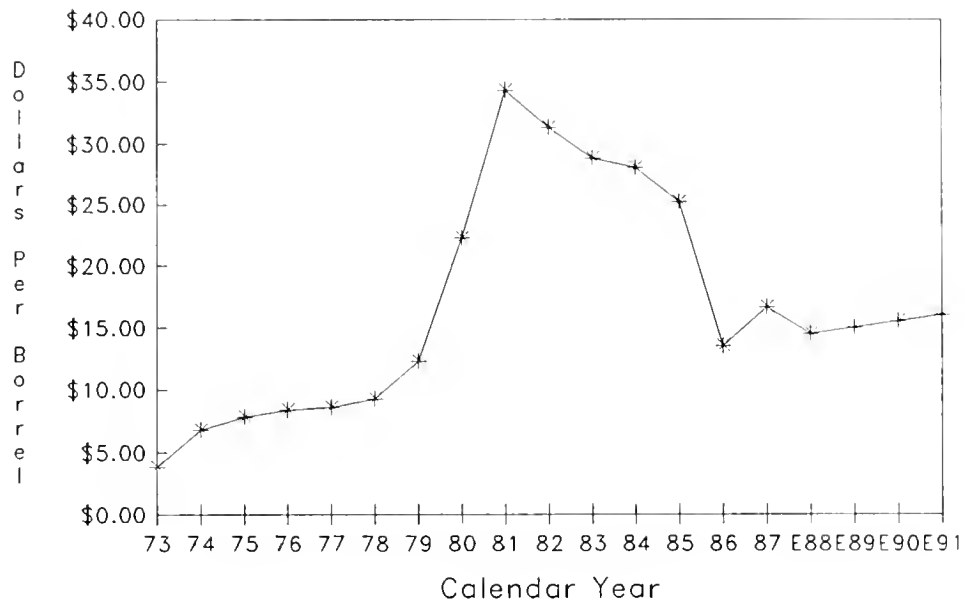
Source:

Historical - Montana Department of Revenue

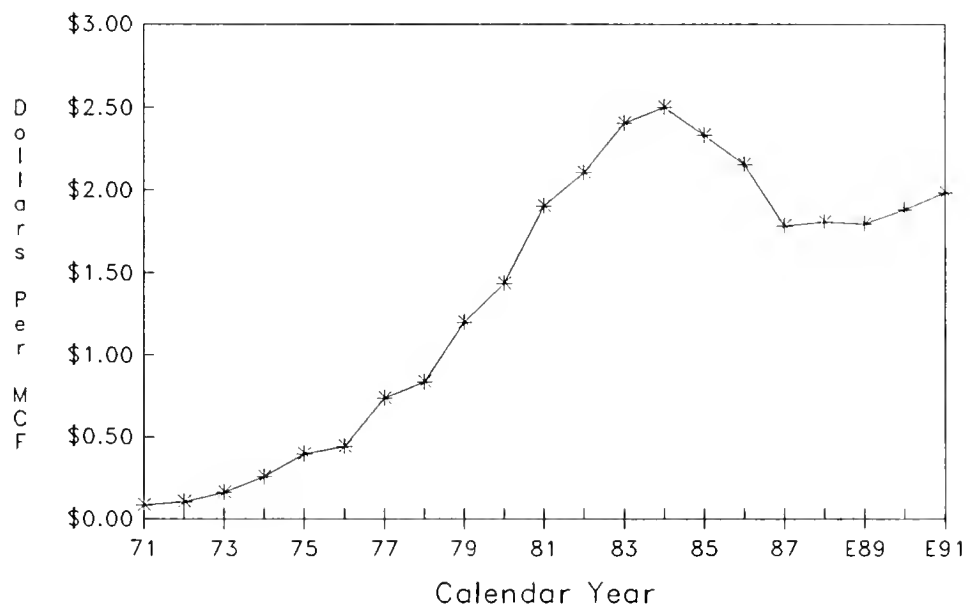
Projected - Revenue Estimating Advisory Council



Montana Oil Prices  
Average Well-Head Price



Montana Natural Gas Prices  
Average Well-Head Price



## INTEREST RATES

Interest rates are highly susceptible to federal policies and the actions of the Federal Reserve Board (FED). Factors that are critical to the future direction of interest rates include the following:

- o the Federal Reserve's philosophy on monetary policy;
- o possible resolutions to the federal deficit;
- o a change in the value of the dollar.

The REAC expects interest rates to increase into CY89 and then decrease slightly in CY90 and CY91. This assumption is based on a more restrictive monetary policy by the Fed-

eral Reserve, at least in the near-term. However, by CY90 an easing of the money supply is anticipated in order to sustain modest economic expansion.

Interest rates directly affect Montana's investment earnings from both short and long-term securities. In addition these rates impact other tax sources by influencing economic variables such as construction activity, consumer spending and business borrowing.

Table 6 reflects historical interest rates as provided by Wharton Econometrics. Also presented in the table is projected interest rates as adopted by the REAC.

**TABLE 6**  
**INTEREST RATES**

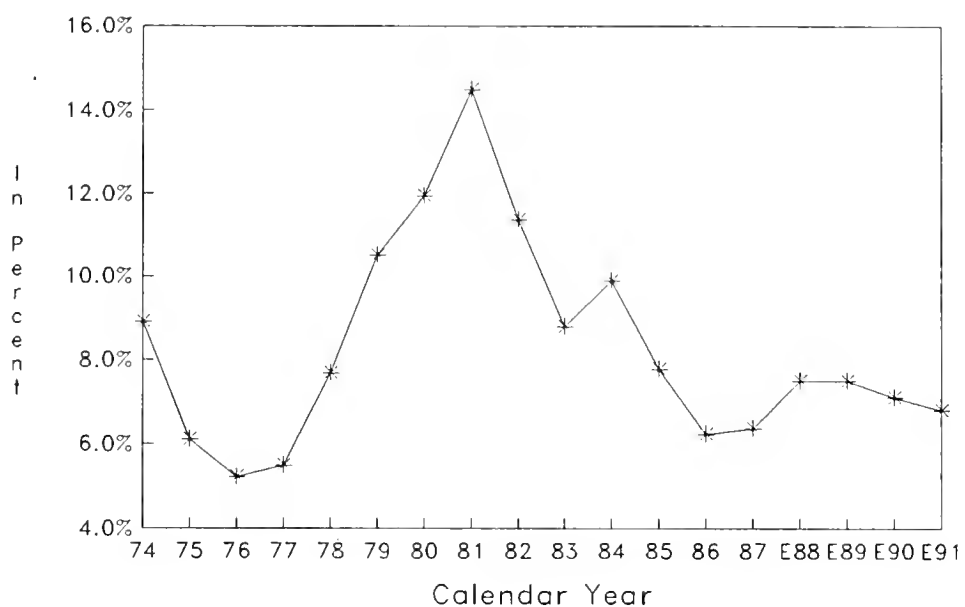
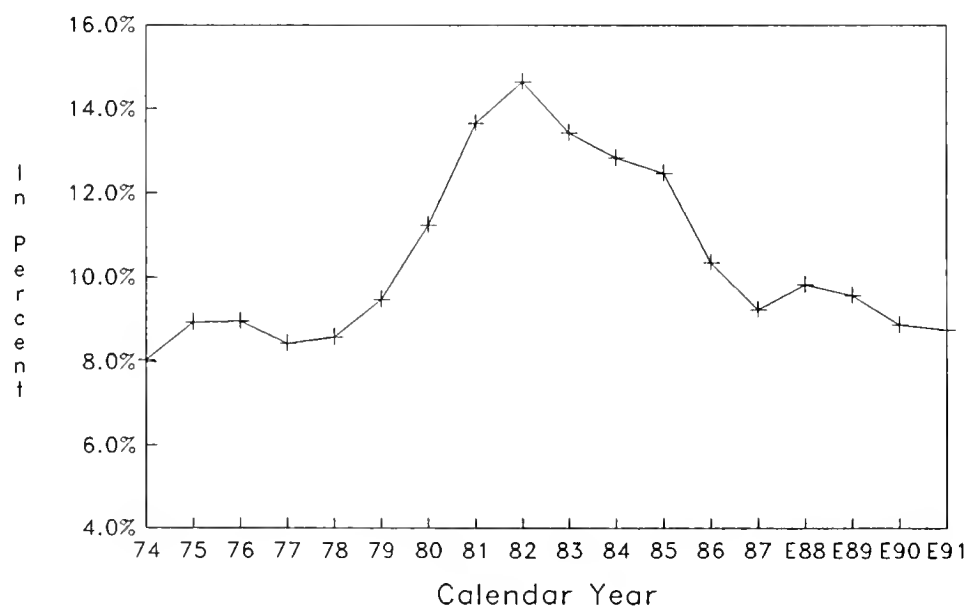
CY	SHORT-TERM RATE	% CHANGE	PRIME RATE	% CHANGE	LONG-TERM RATE	% CHANGE
1974	8.91		10.80		8.60	
1975	6.11	-31.43%	7.86	-27.29%	9.27	7.79%
1976	5.21	-14.73%	6.84	-12.98%	8.64	- 6.80%
1977	5.49	5.37%	6.82	- .29%	8.22	- 4.86%
1978	7.68	39.89%	9.06	32.84%	8.95	8.88%
1979	10.50	36.72%	12.67	39.85%	10.00	11.73%
1980	11.94	13.71%	15.27	20.52%	12.46	24.60%
1981	14.48	21.27%	18.87	23.58%	14.84	19.10%
1982	11.37	-21.48%	14.86	-21.25%	14.42	- 2.83%
1983	8.78	-22.78%	10.80	-27.32%	12.42	-13.87%
1984	9.89	12.64%	12.04	11.48%	13.25	6.68%
1985	7.77	-21.44%	9.94	-17.44%	11.69	-11.77%
1986	6.23	-19.82%	8.33	-16.20%	8.98	-23.18%
1987	6.37	2.25%	8.21	- 1.44%	9.49	5.68%
PROJECTED						
1988	7.50	17.74%	9.44	14.98%	10.14	6.85%
1989	7.50	0.00%	11.24	19.07%	9.00	-11.24%
1990	7.10	- 5.33%	9.94	-11.57%	8.75	- 2.78%
1991	6.80	- 4.23%	8.90	-10.46%	8.75	0.00%

Source:

Historical - Wharton Econometrics

Projected - Revenue Estimating Advisory Council

## ECONOMIC OVERVIEW

Average Interest Rates  
Short-Term SecuritiesAverage Interest Rates  
Long-Term Securities



## GENERAL FUND REVENUE ESTIMATES

General fund revenue includes receipts from levies upon personal income, corporate income, mineral extraction, alcoholic beverage consumption, insurance premiums and numerous other fees, fines and taxes. Since most sources are

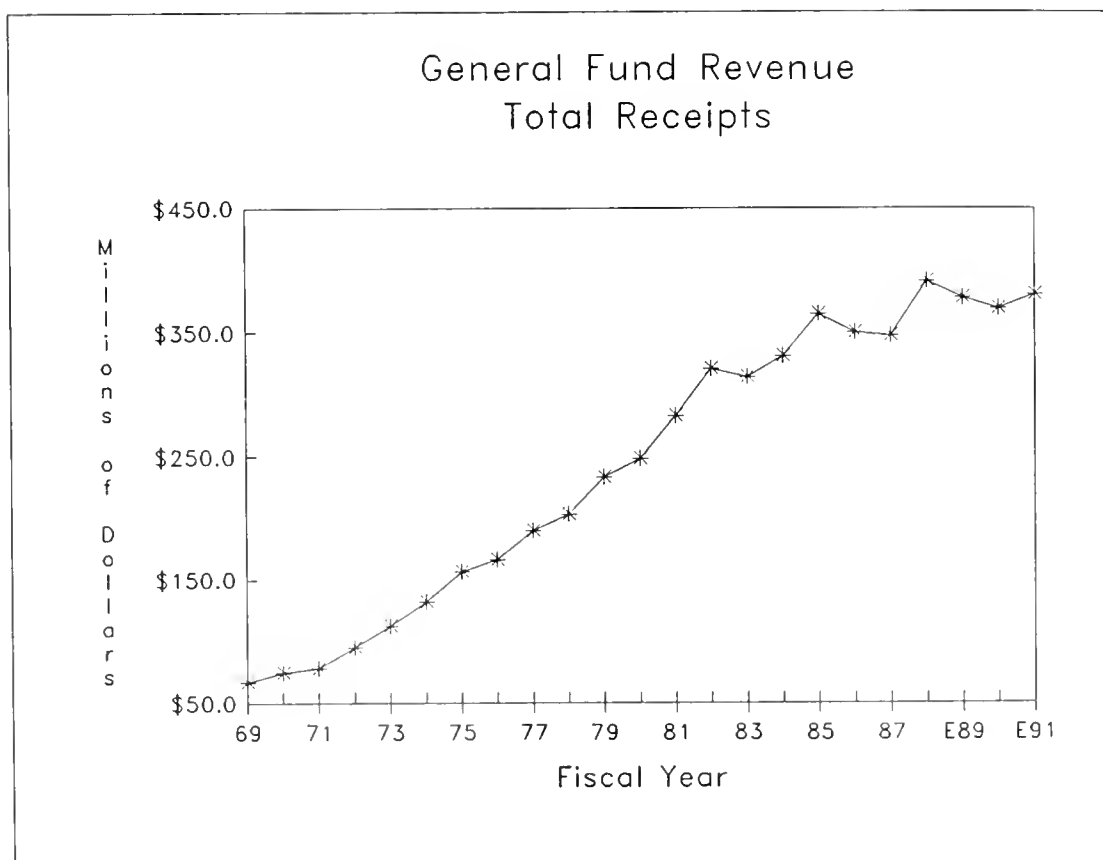
influenced by the economic climate, forecasts formulated for most revenues utilize the economic forecasts previously outlined.

The tables that follow summarize estimated receipts followed by a revenue description and the forecast methodology used for each of the larger general fund revenue sources.

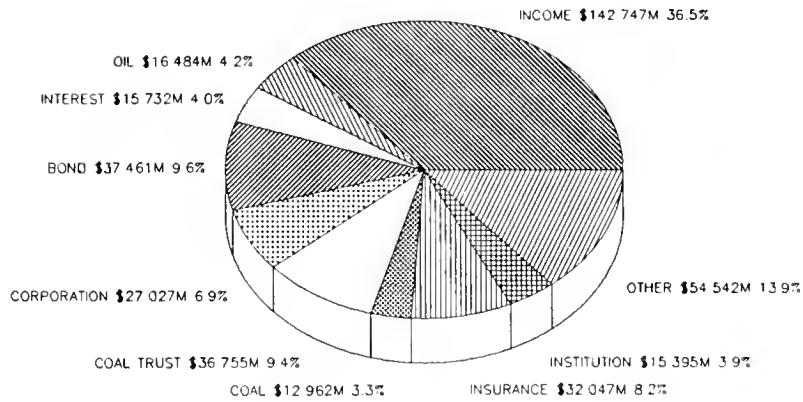


**General Fund Revenue Estimates**  
**Current Law Status**  
(In Millions)

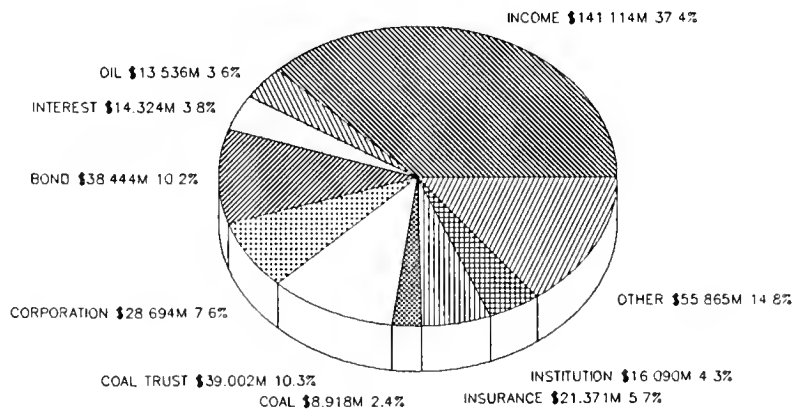
Revenue Component	Actual FY 1988	Estimated FY 1989	Estimated FY 1990	Estimated FY 1991	Estimated FY 88-89	Estimated FY 90-91
Individual Income Tax	\$142.746609	\$141.114000	\$139.170000	\$148.077000	\$283.860609	\$287.247000
Corporation License Tax	27.027277	28.694000	28.855000	29.010000	55.721277	57.865000
Coal Severance Tax	12.961531	8.918000	7.235000	6.249000	21.879531	13.484000
Oil Severance Tax	16.484059	13.536000	14.439000	13.836000	30.020059	28.275000
Interest on Investments	15.731943	14.324000	14.920000	14.282000	30.055943	29.202000
Long-Range Bond Excess	37.461464	38.444000	37.760000	38.977000	75.905464	76.737000
Coal Trust Interest Income	36.754944	39.002000	35.913000	37.510000	75.756944	73.423000
Insurance Premiums Tax	32.047077	21.371000	22.187000	23.685000	53.418077	45.872000
Public Institutions Reimb.	15.395310	16.090000	12.211000	12.352000	31.485310	24.563000
Liquor Profits	3.633000	3.623000	3.153000	2.680000	7.256000	5.833000
Liquor Excise Tax	5.322934	4.998000	4.691000	4.402000	10.320934	9.093000
Inheritance Tax	8.745457	8.727000	8.905000	9.151000	17.472457	18.056000
Metal Mines Tax	2.961778	3.691000	4.145000	3.595000	6.652778	7.740000
Electrical Energy Tax	3.311082	3.389000	3.488000	3.528000	6.700082	7.016000
Drivers' License Tax	0.790325	0.804000	0.791000	0.812000	1.594325	1.603000
Telephone License Tax	3.450499	3.656000	3.821000	3.971000	7.106499	7.792000
Beer License Tax	1.254564	1.242000	1.244000	1.260000	2.496564	2.504000
Natural Gas Severance Tax	1.491523	1.143000	0.999000	1.035000	2.634523	2.034000
Freight Line Tax	1.229618	1.181000	1.117000	1.180000	2.410618	2.297000
Wine Tax	0.929861	0.901000	0.868000	0.835000	1.830861	1.703000
Other Revenue Sources	21.421351	22.509000	23.096000	23.723000	43.930351	46.819000
<b>GRAND TOTAL</b>	<b>\$391.152206</b>	<b>\$377.357000</b>	<b>\$369.008000</b>	<b>\$380.150000</b>	<b>\$768.509206</b>	<b>\$749.158000</b>



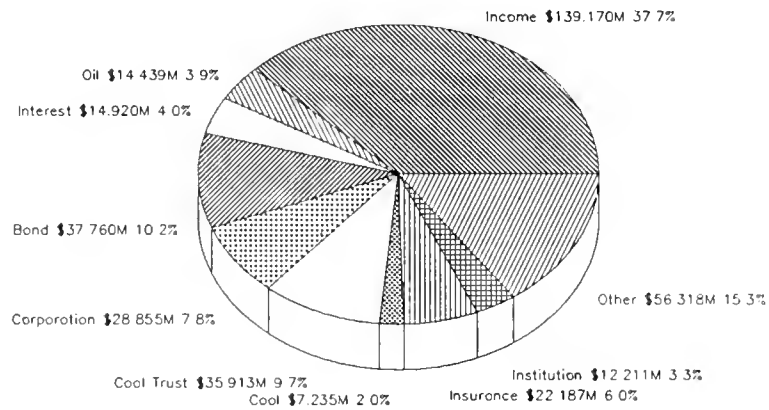
### General Fund Revenue Analysis Contribution By Source For FY 88



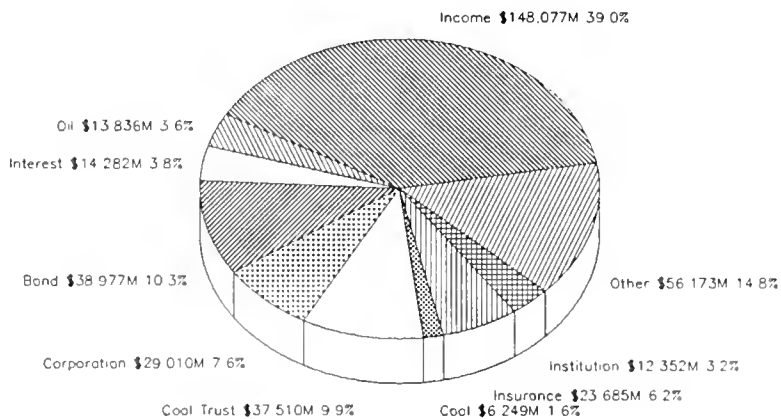
### General Fund Revenue Analysis Contribution By Source For FY 89



### General Fund Revenue Analysis Contribution By Source For FY 90



### General Fund Revenue Analysis Contribution By Source For FY 91



## INDIVIDUAL INCOME TAX

Individual or personal income tax is the largest single source of revenue to the general fund. The original tax law was enacted in 1933 and has been altered many times since then. HB 904, which was passed by the 50th Legislature, changed the allocation of the tax for FY 88 and subsequent years to: 58.2% of the tax is deposited in the general fund; 31.8% in the public school equalization account; and 10% in the long-range building debt service account.

The tax is levied against taxable income which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

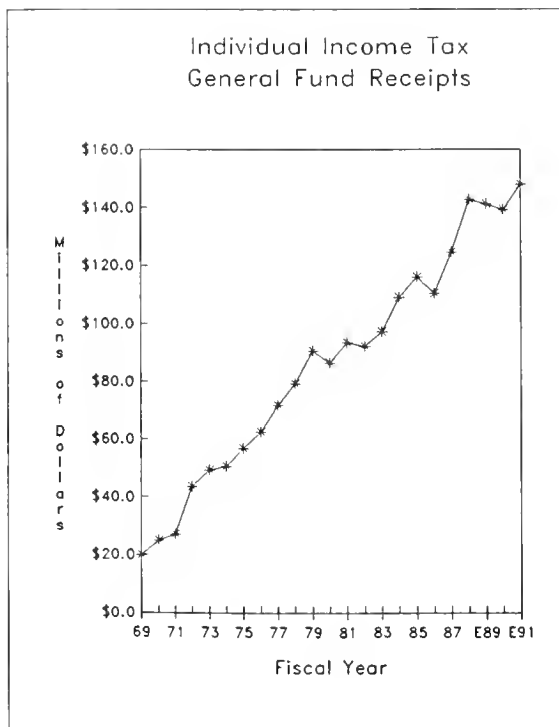
The income tax forecasts for the 1990-91 biennium are based on slow growth in total personal income and employment. Although national economic growth is strong, Montana's economic growth is expected to remain slow primarily due to the depressed energy sector and the continuing shift

in employment from basic industries to the service sectors. Additional factors that affect receipts include credits, exemptions, indexation and audit efforts by the Department of Revenue. Projections for fiscal years 1989 through 1991 are based on an inflation rate of 4.8% to 5% and the continuation of all statutory credits and exemptions. The projections also include audit collections of about \$11 million for FY89 through FY91.

HB 904 passed by the 50th Legislature, also imposed a 10% surtax for tax years 1987 and 1988, which will be collected in FY 88 and FY 89. The surtax is estimated to generate an additional \$24.5 million in FY 88 and \$17.3 million in FY 89. The surtax is not included in the forecasts for the 1990-91 biennium.

The additional revenue that will be received by federal income tax reform has been included in the forecasts. It is estimated this will increase total revenues by approximately \$44.4 million in FY89, \$50.7 million in FY90 and \$61.0 million in FY91.

### GENERAL FUND INDIVIDUAL INCOME TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	38.870849	24.877342	
1971	42.328029	27.070705	8.82%
1972	68.147070	43.620321	61.13%
1973	77.065529	49.321939	13.07%
1974	78.948911	50.527303	2.44%
1975	88.599367	56.703595	12.22%
1976	97.520297	62.412990	10.07%
1977	111.861527	71.591377	14.71%
1978	123.620798	79.117312	10.51%
1979	141.420747	90.509280	14.40%
1980	134.987298	86.391870	- 4.55%
1981	146.036286	93.463223	8.19%
1982	143.803751	92.034568	- 1.53%
1983	151.800311	97.152215	5.56%
1984	170.346345	109.021660	12.22%
1985	181.057157	115.876580	6.29%
1986	172.216130	110.218323	- 4.88%
1987	194.676947	124.593246	13.04%
1988	243.768721	142.746609	14.51%
PROJECTED			
1989	242.464000	141.114000	- 1.14%
1990	239.124000	139.170000	- 1.38%
1991	254.428000	148.077000	6.40%

## CORPORATION LICENSE TAX

The corporation license tax is levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. These taxes apply to both domestic and foreign corporations, although there is an alternative rate for foreign corporations meeting specific requirements.

Corporation taxes are distributed: 64% to the general fund; 25% to the public school equalization account and 11% to the long-range building debt service account. Eighty percent of the taxes collected from financial institutions is distributed to local governments in the county in which the financial institution is located. The remaining 20% is allocated by the above percents.

The decline in FY 87 collections can be attributed to the general slump in the business economy, along with lower taxable incomes in the banking and oil and gas sectors.

The forecasts for fiscal years 1989 through 1991 are based on a slow level of economic growth. This assumption is premised on inflation in the range of 4.8 to 5%, short-term interest rates of about 7.0 to 7.5% and oil prices between \$14 and \$15 per barrel. Although slow economic

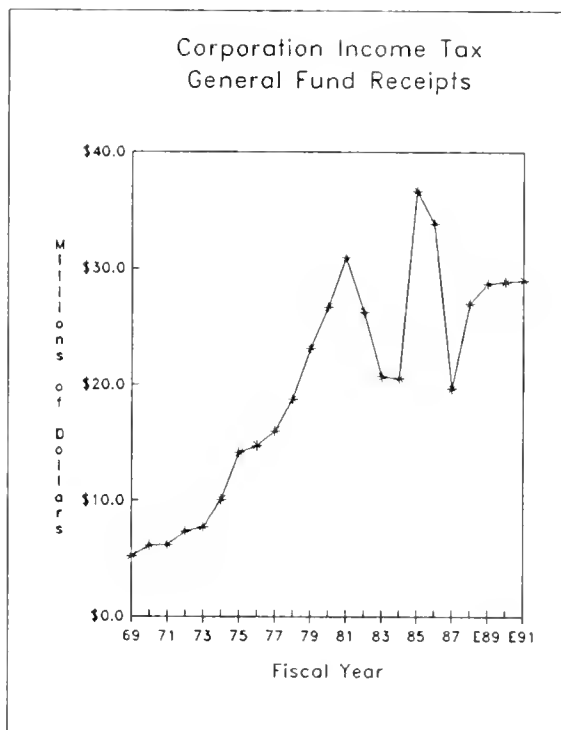
growth is expected to increase corporation taxes modestly, the negative effects of oil prices below the early 1980 levels reduces this anticipated level of growth.

HB 703, referred to as the unitary tax, was passed by the 50th legislature. This legislation allows corporations to be taxed only on their income produced in the United States (Water's edge). The tax rate for corporations electing water's edge is 7.0%, while others are still taxed at 6.75%. HB 703 also imposed a surtax of 4% for tax year 1988, which should affect 60% of the returns filed in FY 89. The surtax should generate an additional \$1.1 million in FY 89 and \$0.8 million in FY 90.

Additional factors that affect receipts include tax credits and audit efforts by the Department of Revenue. As with individual income tax, all forecasts have been adjusted for allowable credits. The projections also include audit collections of \$7 each year million for FY89 through FY91.

The additional revenue that will be received by federal tax reform has been included in the forecasts. It is estimated this will increase total revenues by approximately \$5.9 million in FY89, \$6.4 million in FY90 and \$6.8 million in FY91. These estimates do not include any additional surtax revenue.

## CORPORATION LICENSE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	9.535866	6.102954	
1971	9.605806	6.147716	0.73%
1972	11.299998	7.326719	19.18%
1973	12.057255	7.716643	5.32%
1974	15.736161	10.071143	30.51%
1975	22.078581	14.130292	40.30%
1976	23.020112	14.732872	4.26%
1977	24.957239	15.972633	8.41%
1978	29.238770	18.712814	17.16%
1979	36.091654	23.098659	23.44%
1980	45.623189	26.658417	15.41%
1981	52.900964	30.962755	16.15%
1982	44.630472	26.234449	-15.27%
1983	35.830832	20.733658	-20.97%
1984	35.396240	20.547177	- 0.90%
1985	62.609205	36.657611	78.41%
1986	58.584784	33.884815	- 7.56%
1987	34.566361	19.682607	-41.91%
1988	46.200104	27.027277	37.32%
PROJECTED			
1989	48.890000	28.694000	6.17%
1990	49.207000	28.855000	0.56%
1991	49.503000	29.010000	0.54%

## COAL SEVERANCE TAX

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax. The tax rate for FY88 was 30% of value for coal with a heating quality of 7,000 or more BTU's per pound. Coal with a lower BTU rate was taxed at 20% in FY88. HB 252, passed by the 50th Legislature, reduced these rates because the level of coal production in FY 88 exceeded 32.2 million tons. The following table displays the tax rates implemented by HB 252.

	HB 252 Tax Rates	
	< 7,000 BTU	≥ 7,000 BTU
FY 88	20%	30%
FY 89	17%	25%
FY 90	17%	25%
FY 91	13%	20%
FY 92	13%	15%
& after		

The distribution of the tax has been modified several times since the enactment of the tax in 1975. The current and future statutory tax distributions are presented in the following table. SB 228, passed by the 50th Legislature, changed the allocation effective July 1, 1987 and again on July 1, 1989.

COAL TAX DISTRIBUTION TABLE

ACCT. ENTITY	ACCOUNT NAME	EFFECTIVE JULY 1, 1987	EFFECTIVE JULY 1, 1989
01100	General Fund	15.314%	13.680%
02132	Agriculture Act	0.760%	0.760%
02403	Public School Equalization	16.796%	3.800%
02405	State Library	0.380%	0.380%
02424	Highway Reconstruction Trust	12.000%	12.000%
02434	Conservation Districts	0.190%	0.190%
02437	Alternative Energy Research	1.710%	1.710%
02444	County Land Planning	0.380%	0.380%
02445	Local Impact	1.520%	6.650%
04008	Renewable Resources Bond	0.475%	0.475%
04011	Water Development	0.475%	0.475%
09001	Permanent Trust	50.000%	50.000%
09004	Park Acquisition Trust	0.000%	1.900%
09005	Education Trust	0.000%	7.600%
TOTALS		100.000%	100.000%

Coal severance tax revenues are dependent on the contract sales price per ton of coal and the number of tons produced. Since most of Montana's coal is sold to utilities under long-term contracts, prices are usually allowed to increase by inflation indices specified in the contracts. However, with lower demand and competitively priced other fuels, coal prices are expected to remain constant during the forecast period.

The other factor that affects the price of coal is the deductibility of royalty payments from the contract sales price. The 48th Legislature approved legislation that phases in the royalty deduction over a period of 3 years. These deductions have been included in the price forecasts.

Production levels are influenced by the demand for electrical power and the price of other fuels such as oil and natural gas. Based on information from the major coal pro-

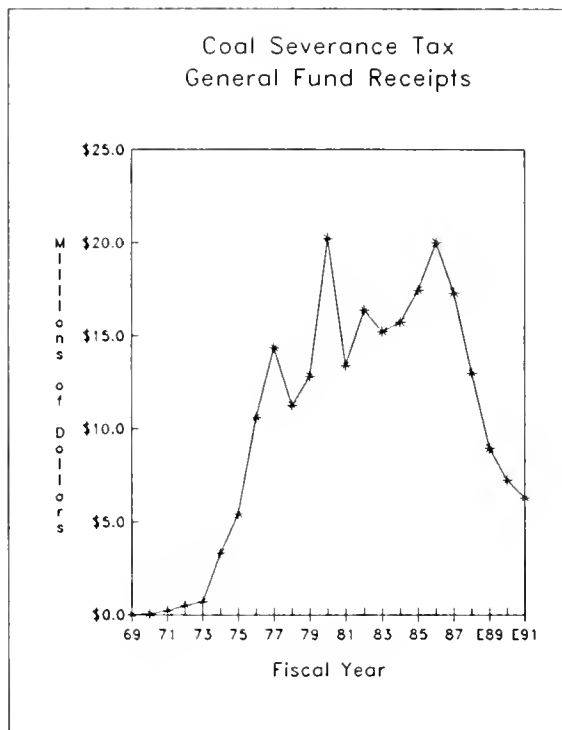
ducers, production is anticipated to decrease substantially during FY89 and then decline modestly in FY90 and FY91.

The 1985 legislature enacted a 1/3 tax rate reduction on increased production due to new or revised contracts signed during a 2 1/2 year "window of opportunity." HB 252 continued this credit for "incremental production", which results in effective tax rates of 10% and 15% for the two BTU levels. The new production resulting from this legislation and the credits claimed are included in the revenue forecasts.

A dispute involving the state's authority to tax coal mined on Crow Indian land has been resolved in the US Supreme Court in favor of the Crow Indian Tribe. Any future production on these lands has been excluded from the revenue forecasts.



## GENERAL FUND COAL SEVERANCE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	0.050300	0.050300	
1971	0.212056	0.212056	321.58%
1972	0.483434	0.483434	127.97%
1973	0.694213	0.694213	43.60%
1974	3.315416	3.315416	377.58%
1975	5.395415	5.395415	62.74%
1976	23.964642	10.586335	96.21%
1977	35.906057	14.362422	35.67%
1978	34.372063	11.241695	-21.73%
1979	42.689164	12.806813	13.92%
1980	75.125009	20.222579	57.90%
1981	70.415073	13.378906	-33.84%
1982	86.186886	16.375541	22.40%
1983	80.045016	15.208581	- .13%
1984	82.823427	15.736468	3.47%
1985	91.748855	17.432283	10.78%
1986	84.217223	20.001598	14.74%
1987	76.546602	17.290794	-13.55%
1988	84.638333	12.961531	-25.04%
PROJECTED			
1989	58.236000	8.918000	-31.19%
1990	52.884000	7.235000	-18.88%
1991	45.683000	6.249000	-13.62%

## OIL SEVERANCE TAX

An oil severance tax is imposed on the production of petroleum and other mineral or crude oil in the state. The tax was first enacted in 1921 and has since undergone several modifications. On April 1, 1983, the tax rate increased from 5 to 6%. However, on April 1, 1985, the tax rate reverted back to 5%.

Beginning in fiscal year 1984, one-third of the tax was deposited in the local government block grant account and two-thirds (less the county portion) in the general fund account. If production in any county increases over production in the previous year, taxes on the increased production are returned to the county.

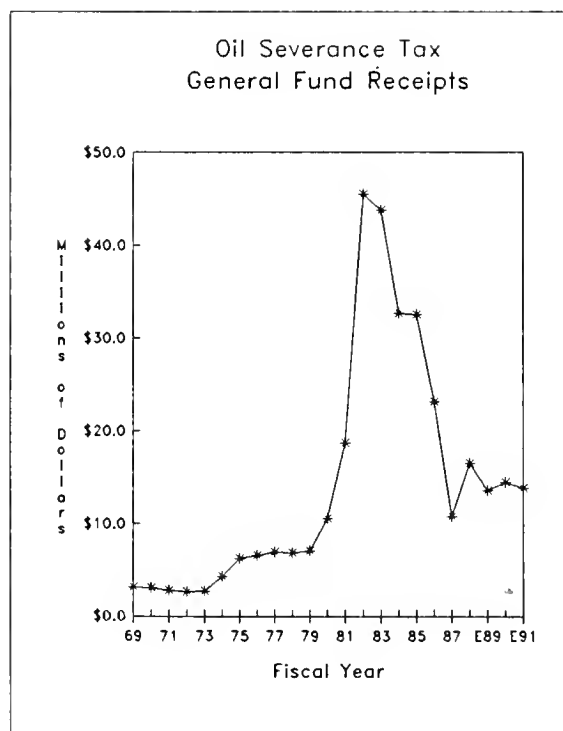
Beginning in FY 88 the tax is no longer deposited in the local government block grant account (SB 200). Instead, 100% of the tax (less the county portion) is deposited to the general fund account. This change was enacted by SB 200 of the 50th Legislature. SB 200 not only changed the method of taxing vehicles and the distribution of oil severance tax revenues, but also abolished the local government block grant program.

Oil severance tax revenues are dependent on well-head prices and the number of barrels of oil produced. Since oil is a commodity that is used for many purposes, the well-head price depends heavily upon federal regulations and world demand. It is assumed that prices will decline from FY88 levels and drift upward throughout the forecast period. However, prices are not expected to reach FY 88 levels by FY 91. This assumption is based on OPEC's inability to maintain a stable production agreement among member countries.

Production is expected to continue to decline from calendar year 1987 levels. With a world oil glut and oil prices well below pre-1986 levels, the economic incentive to explore and produce more oil is not feasible.

The decrease in collections from FY86 to FY87 is attributable to the drop in oil prices and production. General fund revenues increase from FY87 to FY88 due to the change in the tax distribution enacted by SB 200. HB 776, passed by the 50th Legislature, exempted from taxation all new production for the first 24 months of production. Stripper production tax rates were also reduced depending on the level of daily production. Both of these changes have been incorporated in the revenue forecasts.

### GENERAL FUND OIL SEVERANCE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	3.038492	3.038492	
1971	2.766963	2.766963	- 8.94%
1972	2.668316	2.668316	- 3.57%
1973	2.692453	2.692453	0.90%
1974	4.255716	4.255716	58.06%
1975	6.179984	6.179984	45.22%
1976	6.563569	6.563569	6.21%
1977	6.884010	6.884010	4.88%
1978	6.808100	6.808100	- 1.10%
1979	7.056573	7.056573	3.65%
1980	10.544555	10.544555	49.43%
1981	19.646958	18.654469	76.91%
1982	47.117535	45.473425	143.77%
1983	48.141445	43.787960	- 3.71%
1984	50.002206	32.686014	-25.35%
1985	50.212317	32.526656	-0.49%
1986	37.816223	23.152504	-28.82%
1987	16.619539	10.762412	-53.52%
1988	16.484059	16.484059	53.16%
PROJECTED			
1989	13.536000	13.536000	-17.88%
1990	14.439000	14.439000	6.67%
1991	13.836000	13.836000	-4.18%

## INTEREST ON INVESTMENTS

The Department of Commerce's Board of Investments is responsible for investing all state funds. Sections 17-6-201 and 17-6-211, MCA, provide specific guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund account.

Since FY80 interest income has become a major source of general fund revenue. In the early 1980's higher interest rates and larger investable balances caused this to occur. However, since 1982, with rates and balances lower, interest income has contributed a smaller proportion of total general fund revenues.

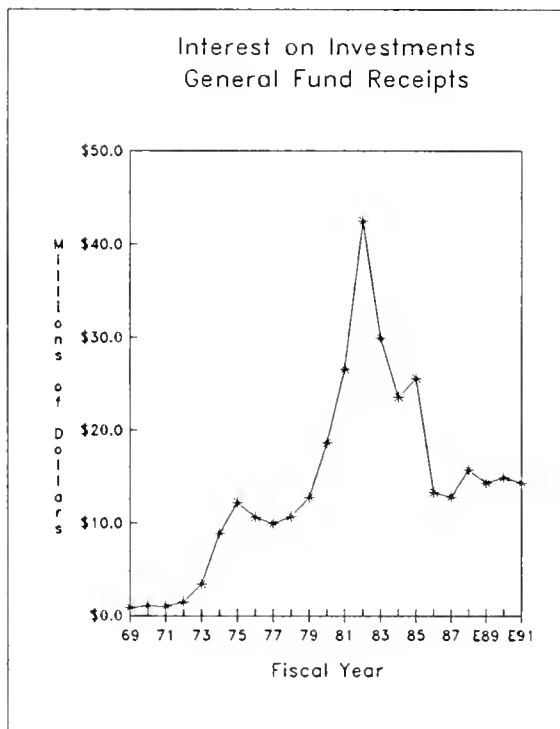
The sharp decline in revenues in FY86 was the result of lower interest rates and a bill passed by the 48th Legislature that authorized interest earned on the highway gas tax account to accrue to the highway account. The June 1986 Special

Session amended this legislation to allow earnings from the highway account to accrue to the general fund.

Interest rates are forecast to increase in FY89 and then decrease modestly in FY90 and FY91. This assumption is based on a more restrictive monetary policy by the Federal Reserve. This will insure that the economy does not grow too quickly during CY89. However, an easing of the money supply is anticipated by CY90 in order to sustain modest economic growth. Although real interest rates remain high by historic standards, real rates are expected to drift downward throughout the forecast period. These trends are consistent with the forecasts provided by Wharton Econometrics.

Average daily investable cash balances are anticipated to increase during the forecast period. The increase in gasoline and diesel tax rates, enacted by the 50th Legislature, will increase the investable cash balance in the highway gas tax account.

## GENERAL FUND INTEREST ON INVESTMENTS COLLECTIONS



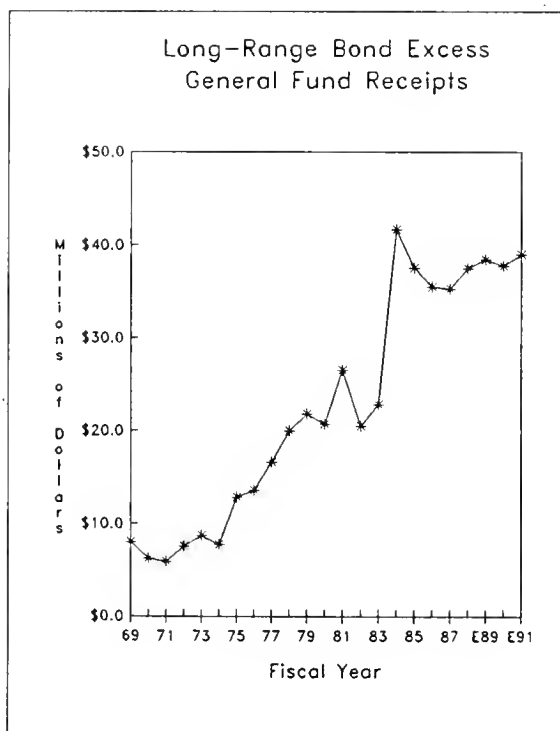
FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	1.064999	
1971	1.027335	- 3.54%
1972	1.507755	46.76%
1973	3.391643	124.95%
1974	8.884671	161.96%
1975	12.150937	36.76%
1976	10.607372	-12.70%
1977	9.891246	- 6.75%
1978	10.663504	7.81%
1979	12.714971	19.24%
1980	18.633664	46.55%
1981	26.566775	42.57%
1982	42.442544	59.76%
1983	29.918421	-29.51%
1984	23.527514	-21.36%
1985	25.527889	8.50%
1986	13.285291	-47.96%
1987	12.826674	-3.45%
1988	15.731943	22.65%
	PROJECTED	
1989	14.324000	-8.95%
1990	14.920000	4.15%
1991	14.282000	-4.28%

## LONG-RANGE BOND EXCESS

Each biennium all agencies are requested to submit proposals for capital projects to be funded from the sale of long-range building bonds. If the legislature authorizes the sale, the principal and interest charges are paid from the long-range building debt service account. Revenues deposited to this account include portions of the individual income tax, corporation license tax, cigarette tax and tobacco tax. When the amount of money in the debt service account exceeds the annual principal and interest payments, the excess is transferred to the general fund.

Historically, revenues from this source were estimated by adding anticipated receipts from the tax sources mentioned above and subtracting the necessary principal and interest payments. However, in FY84, the Department of Administration began transferring all debt service revenues to the general fund. A general fund statutory appropriation was also established to transfer the necessary principal and interest payments back to the debt service account. These accounting transactions had zero impact on the general fund account balance. It is assumed that the Department of Administration will continue with these accounting procedures throughout the forecast period.

### GENERAL FUND LONG-RANGE BOND EXCESS COLLECTIONS



<u>FISCAL YEAR</u>	<u>GENERAL FUND COLLECTIONS (MILLION \$)</u>	<u>PERCENT CHANGE</u>
1970	6.200000	
1971	5.850000	- 5.65%
1972	7.540000	28.89%
1973	8.685000	15.19%
1974	7.717204	-11.14%
1975	12.787314	65.70%
1976	13.512425	5.67%
1977	16.589012	22.77%
1978	19.900000	19.96%
1979	21.800000	9.55%
1980	20.700000	-5.05%
1981	26.500000	28.02%
1982	20.450000	-22.83%
1983	22.797971	11.48%
1984	41.682643	82.83%
1985	37.535668	-9.95%
1986	35.487786	-5.46%
1987	35.312990	-0.49%
1988	37.461464	6.08%
<b>PROJECTED</b>		
1989	38.444000	2.62%
1990	37.760000	-1.78%
1991	38.977000	3.22%

## COAL TRUST FUND INTEREST

Article IX, section 5, of the Montana Constitution requires the Department of Revenue to deposit 50% of the coal severance tax receipts to the permanent trust fund. The principal cannot be spent unless three-fourths of the members of each house votes for its appropriation. The interest earned on the fund is available for appropriation each biennium. Interest earned on the fund is deposited in an expendable trust account and reinvested until appropriated.

In 1982 voters approved Initiative 95 which required one-fourth of all future deposits to the permanent trust fund be invested in the Montana economy. This redistribution has caused investment income to grow at a slower rate. However, as this policy stimulates economic development, collections from personal and corporate income taxes will increase, offsetting a portion of the loss in investment income.

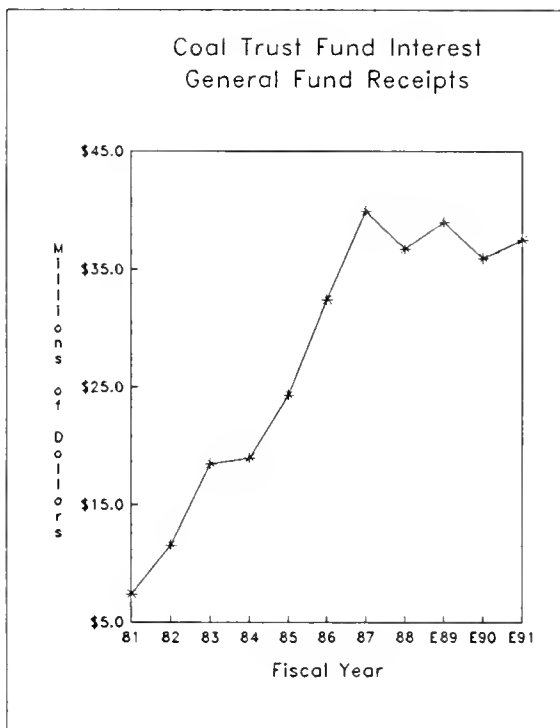
The 48th Legislature established the authority to issue and sell coal severance tax bonds for financing specific water

resource development projects. Debt service on these bonds is retired primarily with pledged project and coal severance tax revenues. This requirement will reduce permanent trust fund receipts by about \$605,000 in fiscal years 1989, 1990 and 1991.

Total permanent trust interest income is projected to increase over the forecast period. Balances available for investment are expected to increase because of additional coal severance tax receipts being deposited to the permanent trust fund. Long-term interest rates are estimated to gradually decline throughout the forecast period.

From FY84 to FY86 85% of the interest earnings from the coal tax trust was deposited in the general fund, with 15% remaining in the trust fund. SB 228, which was passed by the 50th Legislature, required 100% of the interest earnings be deposited in the general fund in FY87. This percentage was changed to 98% in FY88 and FY89, with the other 2% remaining in the trust fund. After FY89, the distribution returns to 85% to the general fund and 15% remaining in the trust fund.

### GENERAL FUND COAL TRUST FUND INTEREST COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970			
1971			
1972			
1973			
1974			
1975			
1976			
1977			
1978	0.086801		
1979	0.712165		
1980	2.118130		
1981	5.099806	7.421901	
1982	11.726303	11.542421	55.52%
1983	18.520100	18.466762	59.99%
1984	22.291337	18.947636	2.60%
1985	28.672038	24.299902	28.25%
1986	38.168226	32.443208	33.51%
1987	39.924866	39.924866	23.06%
1988	37.692796	36.754944	-7.94%
PROJECTED			
1989	39.797000	39.002000	6.11%
1990	42.251000	35.913000	-7.92%
1991	44.130000	37.510000	4.45%

## INSURANCE PREMIUMS TAX

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. The tax was first enacted in 1897 and has been modified several times since then. The current tax rate is 2.75% of net premiums on policies sold in Montana. Receipts from the tax are distributed to the police and firemen pension funds with the remainder going to the general fund.

In addition to the premiums tax, there are additional insurance license and fee revenues collected by the State Auditor. These revenues are deposited in a state special revenue account for the operation of the insurance program. Any excess left in the account at the end of each fiscal year is transferred to the general fund account.

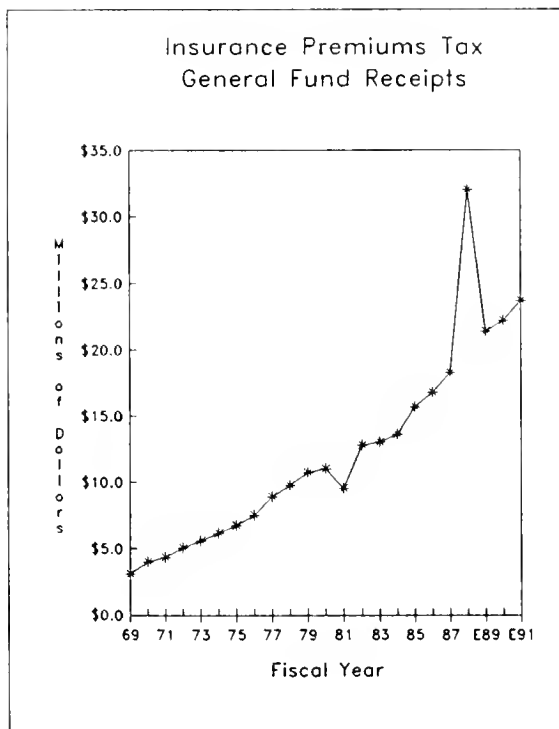
The level of insurance tax receipts is dependent on the affordability of insurance and the attitude of consumers

toward insurance purchases. Based on a slow growth in total personal income and employment and an anticipated stability in insurance rates, taxes for fiscal years 1989 through 1991 are forecast to increase by about 5.8%. This rate is consistent with the growth since 1980.

The \$32.0 million in general fund receipts for FY88 is due to HB 880, passed by the 50th Legislature. This legislation accelerated insurance premium payments from an annual to a quarterly reporting period. An additional \$11.9 million was deposited in the general fund in FY88 by accelerating payments.

Senate bill 429 passed by the 48th Legislature increased the state's contribution to the police and firemen pension funds. These changes have been incorporated in the revenue forecasts. It is estimated that these contributions will be \$5.8 million in FY89, \$6.0 million in FY90 and \$6.2 million in FY91.

### GENERAL FUND INSURANCE PREMIUMS TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	4.931700	4.003699	
1971	5.383425	4.333425	8.24%
1972	6.115751	5.065751	16.90%
1973	6.812473	5.612473	10.79%
1974	7.366923	6.166923	9.88%
1975	8.323217	6.723217	9.02%
1976	9.101597	7.496699	11.50%
1977	10.766727	8.885923	18.53%
1978	12.106652	9.787436	10.15%
1979	13.748226	10.748226	9.82%
1980	14.492757	11.031794	2.64%
1981	15.254036	9.551061	-13.42%
1982	16.054771	12.790003	33.91%
1983	17.011494	13.011479	1.73%
1984	18.772261	13.621332	4.69%
1985	20.003012	15.691565	15.20%
1986	22.484437	16.780399	6.94%
1987	23.910034	18.245085	8.73%
1988	38.342221	32.047077	75.65%
PROJECTED			
1989	27.754000	21.371000	-33.31%
1990	29.363000	22.187000	3.82%
1991	31.065000	23.685000	6.75%

## PUBLIC INSTITUTION REIMBURSEMENTS

The Department of Institutions receives reimbursements for the cost of sheltering and treating residents of the state institutions. There are four sources of reimbursement income:

- o state and federally matched medicaid monies;
- o insurance proceeds from companies with whom the resident is insured;
- o payments by residents or persons legally responsible for them;
- o federal medicare funds.

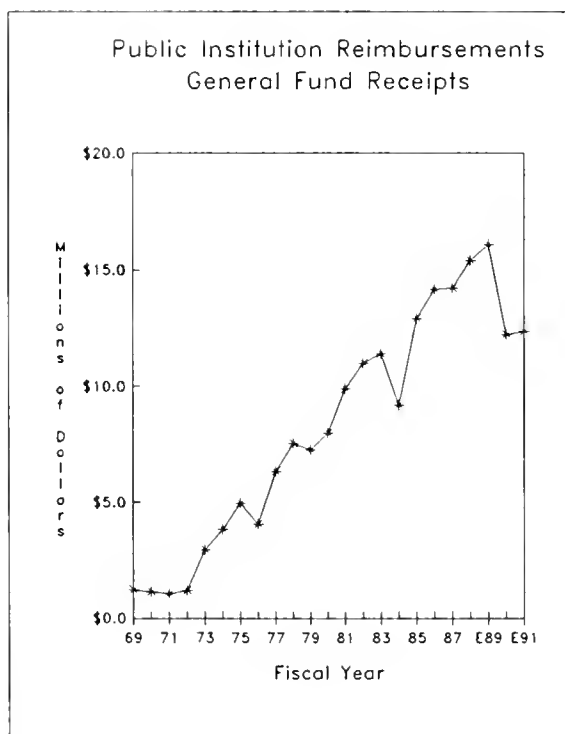
All revenue collected from these sources is deposited in the general fund. The one exception is the Veterans' Home receipts, which are returned to the institution.

Most of the reimbursements come from state and federally matched medicaid payments. For example, in FY88, approximately 86% of all reimbursements collected were medicaid receipts. Forecasts for this component are based on the medicaid budget for the Department of Social and Rehabilitation Services (SRS).

However, based on a Legislative Auditor's audit recommendation, SRS will not budget for the state general fund match for medicaid monies. Instead the Department of Institutions will provide the state match by documenting their general fund expenditures for medicaid patients with the federal government. This new procedure will begin in FY90.

The other three components of reimbursement are expected to increase by the rate of inflation or roughly 5% per year.

### GENERAL FUND PUBLIC INSTITUTION REIMBURSEMENTS COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	1.146193	
1971	1.069182	- 6.72%
1972	1.184218	10.76%
1973	2.945826	148.76%
1974	3.838150	30.29%
1975	4.964138	29.34%
1976	4.054219	-18.33%
1977	6.324501	56.00%
1978	7.532377	19.10%
1979	7.264924	- 3.55%
1980	7.981975	9.87%
1981	9.899562	24.02%
1982	10.974196	10.86%
1983	11.406505	3.94%
1984	9.179921	-19.52%
1985	12.895427	40.47%
1986	14.166104	9.85%
1987	14.215767	0.35%
1988	15.395310	8.30%
PROJECTED		
1989	16.090000	4.52%
1990	12.211000	-24.11%
1991	12.352000	1.15%

## LIQUOR PROFITS AND EXCISE TAX

The Department of Revenue is authorized to sell liquor and wines to the public and retail liquor establishments throughout the state. These sales result in profits and taxes which are deposited in various state and local accounts.

Prices established by the department include a standard mark-up, a 16% excise tax and a 10% license tax. All of the excise tax is deposited in the general fund. The license tax is distributed to the Department of Institutions and cities, towns and counties for alcohol treatment and rehabilitation programs.

Liquor sales for fiscal year 1989 through 1991 are expected to decline from their FY88 level. Although total personal income is growing, there appears to be a national trend

toward moderation in liquor consumption. This trend can be attributable to more emphasis on drug and alcohol education in our schools and the stepped-up enforcement of DUI laws.

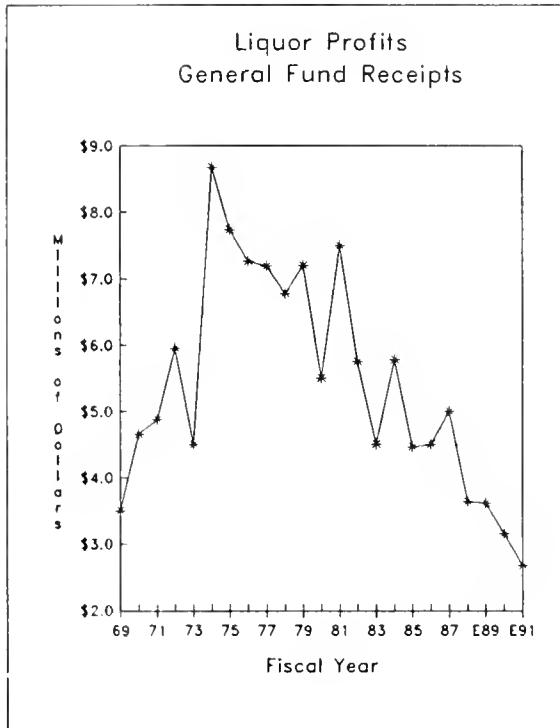
The deficit reduction package passed by Congress on October 1, 1985, increased the federal tax on alcohol by 19%. This change increased Montana's total liquor sales revenues which translated to larger profits and higher excise taxes. The forecasts for liquor profits and excise taxes are based on no further changes in federal laws.

Operating expenses of the Department of Revenue's Liquor Division affect the transfer of liquor profits to the general fund. It is estimated that these expenses will continue to decline from FY88 levels to about \$5.8 million in FY89, \$5.7 million in FY90 and \$5.6 million in FY91.

The increased profits in FY84 and FY87 are attributable to a reduction in the liquor division's inventory of goods.

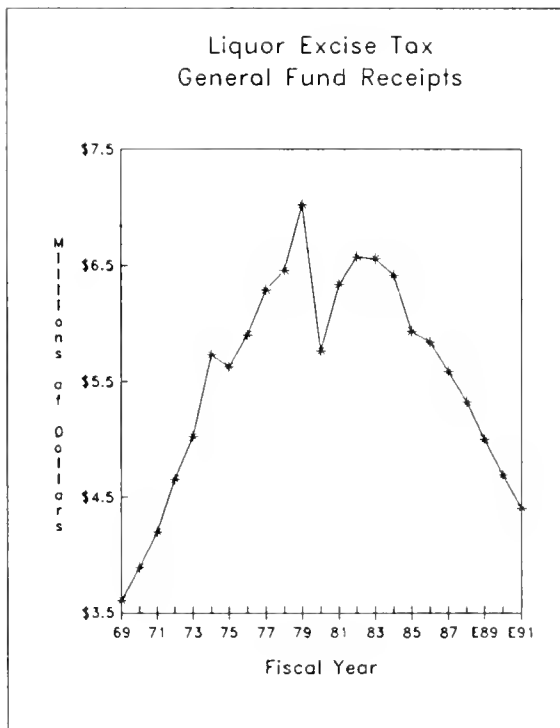


## GENERAL FUND LIQUOR PROFITS COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	4.653815	
1971	4.878745	4.83%
1972	5.950000	21.96%
1973	4.500000	-24.37%
1974	8.675600	92.79%
1975	7.738305	-10.80%
1976	7.260551	- 6.17%
1977	7.189862	- 0.97%
1978	6.778951	- 5.72%
1979	7.200000	6.21%
1980	5.500887	-23.60%
1981	7.499113	36.33%
1982	5.750000	-23.32%
1983	4.500000	-21.74%
1984	5.782000	28.49%
1985	4.466000	-22.76%
1986	4.500000	0.76%
1987	5.000000	11.11%
1988	3.633000	-27.34%
PROJECTED		
1989	3.623000	-0.28%
1990	3.153000	-12.97%
1991	2.680000	-15.01%

## GENERAL FUND LIQUOR EXCISE TAX COLLECTIONS



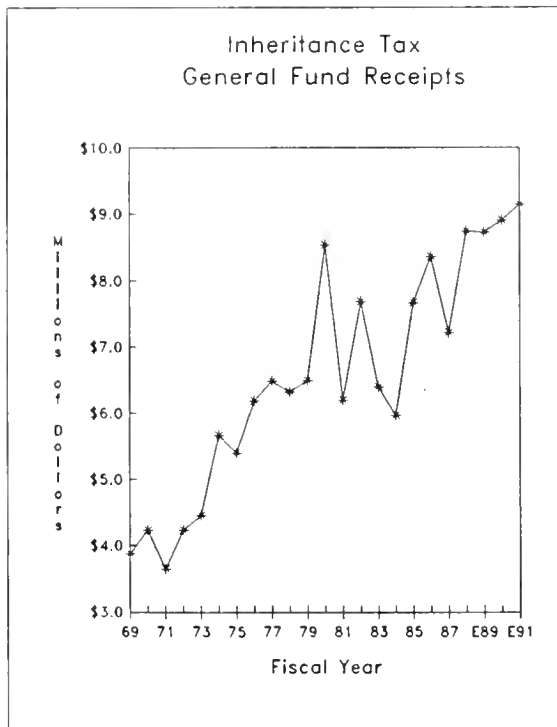
FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	4.871287	3.892771	
1971	5.256299	4.197793	7.84%
1972	5.832888	4.652984	10.84%
1973	6.285037	5.022561	7.94%
1974	7.044522	5.730242	14.09%
1975	7.383326	5.625391	-1.83%
1976	7.744188	5.900333	4.89%
1977	8.251359	6.286748	6.55%
1978	10.528892	6.459007	2.74%
1979	11.406432	7.022237	8.72%
1980	9.367704	5.764741	-17.91%
1981	10.300261	6.340958	10.00%
1982	10.675236	6.572066	3.64%
1983	10.655421	6.559727	-0.19%
1984	10.422641	6.415784	-2.19%
1985	9.642852	5.935058	-7.49%
1986	9.482576	5.836884	-1.65%
1987	9.079530	5.589174	-4.24%
1988	8.646707	5.322934	-4.76%
PROJECTED			
1989	8.123000	4.998000	-6.10%
1990	7.623000	4.691000	-6.15%
1991	7.154000	4.402000	-6.15%

## INHERITANCE TAX

The inheritance tax is imposed on the transfer of any decedent's property, interest in property or income from property within the state to any other person or corporation except a surviving spouse, or governmental or charitable organization. The tax rate varies from 0 to 32% depending on the size of the estate and the relationship of the decedent to the beneficiary. All revenue collected from the inheritance tax is deposited in the general fund.

Since 1980 revenues from inheritance taxes have fluctuated erratically because of federal and state law changes, accounting procedures and the processing of several large estates. The forecasts for fiscal years 1989 through 1991 are based on the underlying trend in revenues since 1969. Even with all federal and state law changes that have been implemented, on the average, annual revenues continue to grow between 2 and 3%. This trend is expected to continue throughout the forecast period.

### GENERAL FUND INHERITANCE TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	4.233429	
1971	3.645252	-13.89%
1972	4.233991	16.15%
1973	4.457188	5.27%
1974	5.659992	26.99%
1975	5.395236	-4.68%
1976	6.180106	14.55%
1977	6.483191	4.90%
1978	6.312432	-2.63%
1979	6.490196	2.82%
1980	8.537242	31.54%
1981	6.195069	-27.43%
1982	7.680529	23.98%
1983	6.398489	-16.69%
1984	5.960471	-6.85%
1985	7.656622	28.46%
1986	8.364764	9.25%
1987	7.212092	-13.78%
1988	8.745457	21.26%
PROJECTED		
1989	8.727000	-0.21%
1990	8.905000	2.04%
1991	9.151000	2.76%

## METAL MINES TAX

The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced. No deductions are allowed for smelting, reductions or treatments.

For tax years beginning after December 31, 1984, the tax rate is as follows:

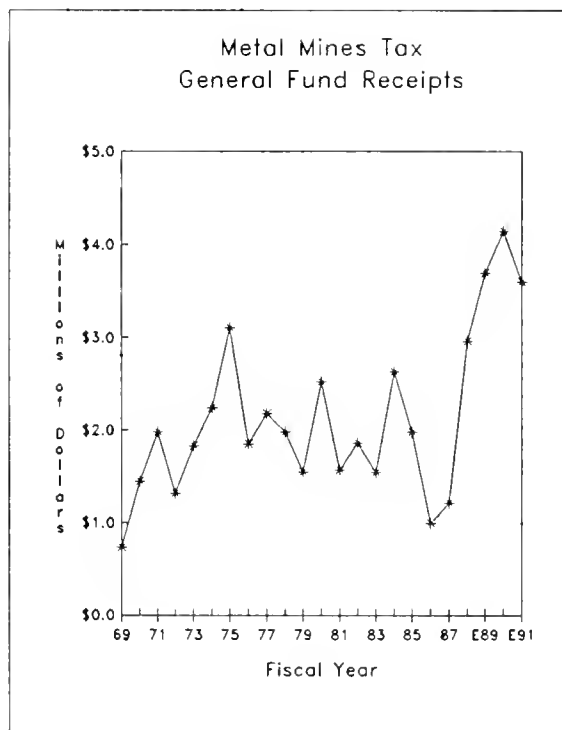
<u>Gross Value</u>	<u>Rate</u>
\$0-\$250,000	Exempt
\$250,000-\$500,000	.50%
\$500,000-\$1,000,000	1.00%
Greater Than \$1,000,000	1.50%

Historically, the metal mines tax has been deposited in the general fund. Beginning in FY86, one-third of the receipts were deposited in a hard-rock mining trust account.

Metal prices, metal production and the effective tax rate are the major factors that determine the level of metal mines tax receipts. Prices for gold, silver, lead, zinc, molybdenum, palladium and platinum are expected to remain relatively constant during the forecast period. Copper prices, however, are expected to decline because of the recent anomaly in world markets. Based on information from the major metal producers in the state, production for gold, silver, lead, zinc, molybdenum, palladium and platinum are expected to increase slightly throughout the forecast period. Copper production is expected to decrease as the grade of ore declines over the 3 to 4 year mining cycle.

Major companies that are currently operating in Montana include Golden Sunlight, ASARCO, Montana Resources, Landusky/Zortman, Montana Tunnels, Beale Mountain and the Stillwater Project.

### GENERAL FUND METAL MINES TAX COLLECTIONS



<u>FISCAL YEAR</u>	<u>TOTAL COLLECTIONS (MILLION \$)</u>	<u>GENERAL FUND COLLECTIONS (MILLION \$)</u>	<u>PERCENT CHANGE</u>
1970	1.440898	1.440898	
1971	1.976202	1.976202	37.15%
1972	1.313736	1.313736	-33.52%
1973	1.828501	1.828501	39.18%
1974	2.239654	2.239654	22.49%
1975	3.099368	3.099368	38.39%
1976	1.845076	1.845076	-40.47%
1977	2.177777	2.177777	18.03%
1978	1.978993	1.978993	- 9.13%
1979	1.544518	1.544518	-21.95%
1980	2.516820	2.516820	62.95%
1981	1.564569	1.564569	-37.84%
1982	1.861208	1.861208	18.96%
1983	1.542061	1.542061	-17.15%
1984	2.630135	2.630135	70.56%
1985	1.977324	1.977324	-24.82%
1986	1.479993	0.989852	-49.94%
1987	1.756121	1.211030	22.34%
1988	4.248913	2.961778	144.57%
PROJECTED			
1989	5.509000	3.691000	24.62%
1990	5.690000	4.145000	12.31%
1991	5.365000	3.595000	-13.28%

## ELECTRICAL ENERGY TAX

The electrical energy tax is imposed on each person or organization engaged in generating, manufacturing or producing electrical energy in Montana. The tax rate of \$.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy used by the plant for the production of the energy. All receipts are deposited in the general fund.

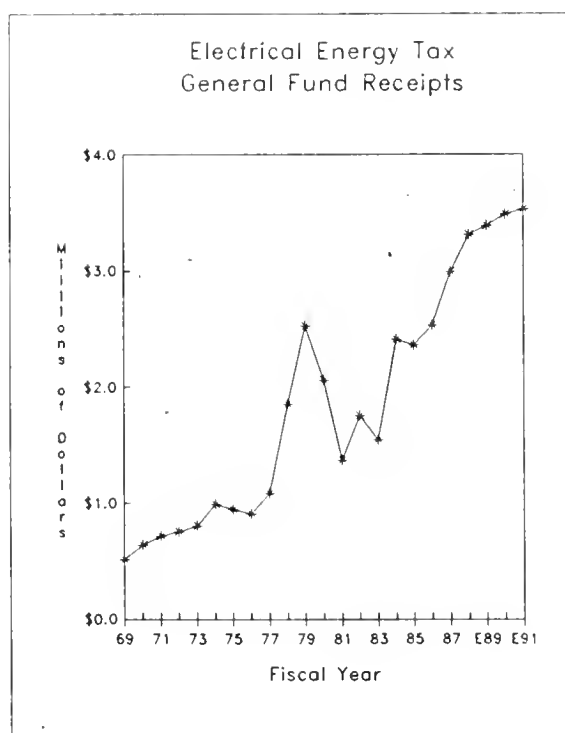
Total electricity production in Montana is projected to increase from FY88 levels during the FY89 through FY91 period. By 1991, the rate of growth is expected to slow. These assumptions are based on production estimates supplied by the major producers.

Although Colstrip units 3 and 4 had mechanical problems during CY87, these problems have been resolved and the plants are expected to operate at or near capacity.

Electrical energy taxes may be reduced by an interest differential credit claimed by the producers. This credit is determined by the difference between the actual interest received on energy conservation loans and the average interest rate for home improvement loans. These credits are expected to reduce revenues by approximately \$390,000 per year.

An audit by the Department of Revenue in FY84 generated \$552,000 in additional revenue collections. This one-time adjustment has been accounted for in subsequent years.

### GENERAL FUND ELECTRICAL ENERGY TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	0.639343	
1971	0.717378	12.21%
1972	0.756795	5.49%
1973	0.805716	6.46%
1974	0.992950	23.24%
1975	0.946504	-4.68%
1976	0.907698	-4.10%
1977	1.082858	19.30%
1978	1.850994	70.94%
1979	2.523707	36.34%
1980	2.060960	-18.34%
1981	1.367959	-33.63%
1982	1.753173	28.16%
1983	1.546157	-11.81%
1984	2.413172	56.08%
1985	2.361855	-2.13%
1986	2.530403	7.14%
1987	2.991861	18.24%
1988	3.311082	10.67%
PROJECTED		
1989	3.389000	2.35%
1990	3.488000	2.91%
1991	3.528000	1.17%

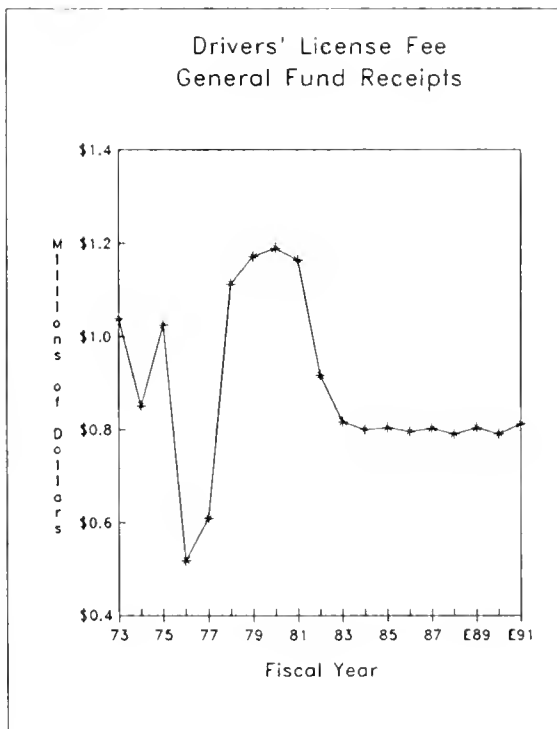
## DRIVERS' LICENSE FEES

A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays a \$12 fee. The fees are collected by motor vehicle division staff or county treasurers and are forwarded to the state treasurer for deposit. Forty percent of the fees collected go to the general fund, 23 1/4% to the traffic safety and education account, 33 1/4% to the highway patrol retirement account and 3 1/4% to counties or the Department of Justice, depending on who collects the fee.

Drivers' license fees are influenced by Montana population growth in the age cohort 16 years and older. It is estimated that the number of people in this group will increase by approximately .6% per year. Based on this growth rate receipts are expected to increase in FY89 and FY91. The decline in FY90 is due to the lower number of license renewals in the even years versus the odd years.

Also included in this component of revenue are motorcycle endorsement fees and duplicate driver's license fees. It is expected that these fees will remain constant throughout the 1990-91 biennium.

### GENERAL FUND DRIVERS' LICENSE FEES COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970			
1971			
1972			
1973	1.107303	1.037772	
1974	0.907824	0.851094	-17.99%
1975	1.082272	1.024492	20.37%
1976	0.572576	0.516664	-49.57%
1977	0.669181	0.609501	17.97%
1978	1.174732	1.111813	82.41%
1979	1.237413	1.171820	5.40%
1980	1.302032	1.189350	1.50%
1981	1.270064	1.163647	-2.16%
1982	1.376728	0.916606	-21.23%
1983	1.427548	0.816365	-10.94%
1984	1.328563	0.799616	-2.05%
1985	1.320716	0.803983	.55%
1986	1.960814	0.796349	-0.95%
1987	1.971861	0.802900	0.82%
1988	1.939289	0.790325	-1.57%
PROJECTED			
1989	1.975000	0.804000	1.69%
1990	1.943000	0.791000	-1.61%
1991	1.997000	0.812000	2.74%

# TELEPHONE LICENSE TAX

The telephone company license tax is levied on the gross income earned by any telephone business within the state, including the transmission of telephone messages by line or by microwave equipment. An exemption is allowed for the first \$250 of gross income earned each quarter. The current tax rate of 1.725% is applied to the adjusted gross income level. All collections are deposited in the general fund.

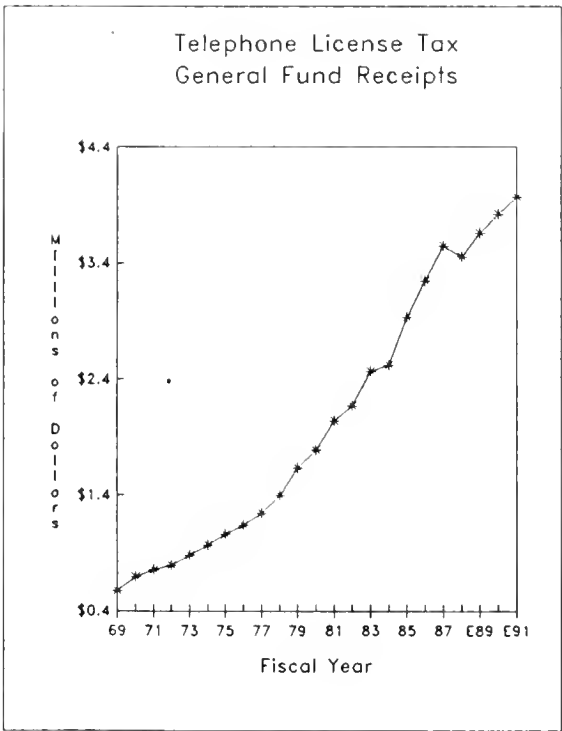
Telephone license tax revenues are forecast by using the anticipated level of telephone companies gross income. Gross income is dependent on the quantity of services provided and the price of the services offered. As the employ-

ment base of the state grows and the business economy expands, the demand for these type of services increases.

Revenue forecasts for the telephone license tax are based on slow employment growth and a slight economic expansion for businesses. These assumptions equate to approximately a 4% annual growth in gross income.

The Public Service Commission (PSC) recently granted an interim rate increase to US West Communications. This interim rate adjustment has been included throughout the forecast period. If future rate adjustments or modifications are adopted by the PSC, then the revenue forecasts would have to be adjusted accordingly.

## GENERAL FUND TELEPHONE LICENSE TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	0.694157	
1971	0.753389	8.53%
1972	0.792593	5.20%
1973	0.879057	10.91%
1974	0.970774	10.43%
1975	1.060939	9.29%
1976	1.137010	7.17%
1977	1.243602	9.37%
1978	1.398137	12.43%
1979	1.634245	16.89%
1980	1.783776	9.15%
1981	2.039383	14.33%
1982	2.167815	6.30%
1983	2.463670	13.65%
1984	2.521905	2.36%
1985	2.931732	16.25%
1986	3.243935	10.65%
1987	3.546256	9.32%
1988	3.450499	-2.70%
PROJECTED		
1989	3.656000	5.96%
1990	3.821000	4.52%
1991	3.971000	3.91%

## BEER LICENSE TAX

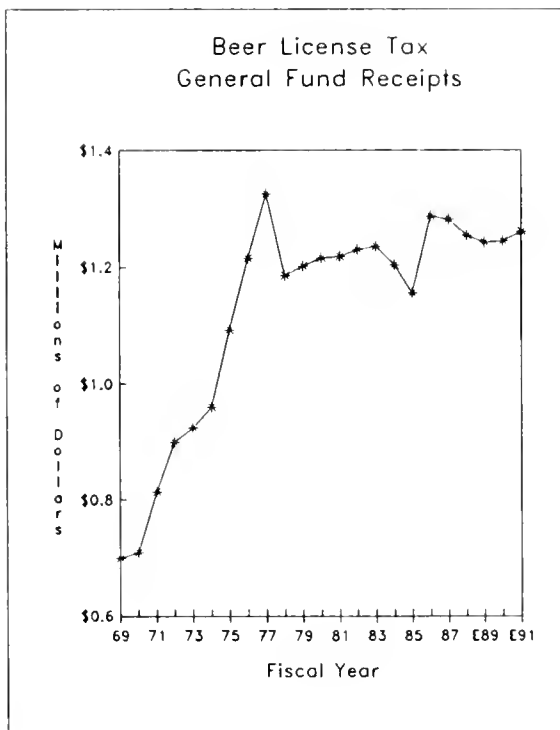
A tax of \$4.30 is levied on each barrel of beer produced in or imported into Montana. Currently, 41.86% of the receipts are distributed to the general fund, 34.88% to the Department of Institutions alcoholism account and 23.26% to cities and towns.

Beer consumption on a per capita basis has declined by 4.8% in FY86, 1.1% in FY87 and 2.6% in FY88. As with liquor revenues, this trend can be attributable to more emphasis on drug and alcohol education in our schools and the stepped-up enforcement of DUI laws. Revenues for

fiscal years 1989 through 1990 are projected to continue this trend but at a slower rate of decline. However, by fiscal year 1991 per capita consumption is not expected to decline further. HB 21, which raised the legal drinking age from 19 to 21, is projected to decrease revenues each year of the forecast period. By fiscal year 1990, the total effect of HB 21 will be realized due to the grandfather language contained in the legislation.

General fund revenues increased in FY86 because the 1985 Legislature increased the tax from \$4.00 to \$4.30 per barrel. The additional tax of \$.30 per barrel has been deposited to the general fund account ever since.

### GENERAL FUND BEER LICENSE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	1.418508	0.709254	
1971	1.627198	0.813599	14.71%
1972	1.797406	0.898703	10.46%
1973	1.847566	0.923783	2.79%
1974	1.917612	0.958806	3.79%
1975	2.121039	1.092109	13.90%
1976	2.250211	1.215114	11.26%
1977	2.454724	1.325551	9.09%
1978	3.056366	1.185362	-10.58%
1979	3.203812	1.201430	1.36%
1980	3.244011	1.216504	1.25%
1981	3.249022	1.218383	0.15%
1982	3.279701	1.229888	0.94%
1983	3.295482	1.235805	0.48%
1984	3.211297	1.204236	-2.55%
1985	3.083163	1.156186	-3.99%
1986	3.105743	1.287765	11.38%
1987	3.060956	1.281316	-0.50%
1988	2.997014	1.254564	-2.09%
PROJECTED			
1989	2.967000	1.242000	-0.99%
1990	2.973000	1.244000	0.19%
1991	3.011000	1.260000	1.28%

NATURAL GAS SEVERANCE TAX

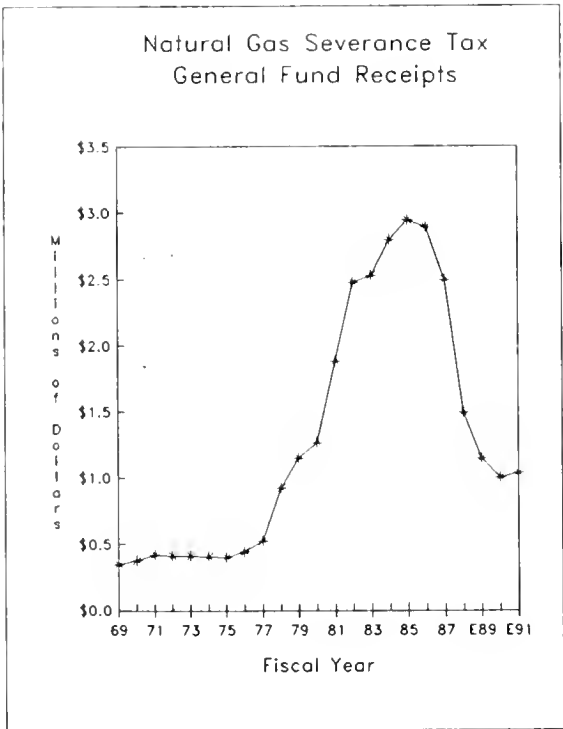
A natural gas severance tax is imposed on the production of natural gas in Montana. The tax rate of 2.65% is applied to the total gross value of natural gas produced from each lease or unit. All receipts, less the county portion, are deposited in the general fund. If production in any county increases over production in the previous year, taxes on the increased production are returned to the county.

Natural gas production has declined each year since 1979 except for an aberration in 1984. This trend is assumed to continue throughout the forecast period as a surplus of natural gas continues to prevail and oil prices remain well below pre-1986 levels.

Average natural gas well-head prices are expected to remain constant into CY89 and then begin to increase in CY90 and CY91. By CY90 the natural gas surplus is expected to begin diminishing and world oil prices are expected to increase. With a more limited supply and more competitively priced fuels, well-head prices should begin to rise.

The decrease in collections in FY88 is attributable to HB 776, passed by the 50th Legislature. This legislation exempted from taxation all new production for the first 24 months of production. Stripper production tax rates were also reduced depending on the level of daily production. Both of these changes have been incorporated in the revenue forecasts.

GENERAL FUND NATURAL GAS SEVERANCE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	0.379112	0.379112	
1971	0.418475	0.418475	10.38%
1972	0.410554	0.410554	-1.89%
1973	0.412667	0.412667	0.51%
1974	0.406911	0.406911	-1.39%
1975	0.403359	0.403359	-0.87%
1976	0.445640	0.445640	10.48%
1977	0.527496	0.527496	18.37%
1978	0.923601	0.923601	75.09%
1979	1.151104	1.151104	24.63%
1980	1.264024	1.264024	9.81%
1981	2.115399	1.881292	48.83%
1982	2.658600	2.474811	31.55%
1983	2.731818	2.525059	2.03%
1984	2.974924	2.797996	10.81%
1985	3.455040	2.945778	5.28%
1986	2.995576	2.890666	-1.87%
1987	2.599380	2.492465	-13.78%
1988	1.499755	1.491523	-40.16%
PROJECTED			
1989	1.148000	1.143000	-23.36%
1990	1.004000	0.999000	-12.62%
1991	1.040000	1.035000	3.66%

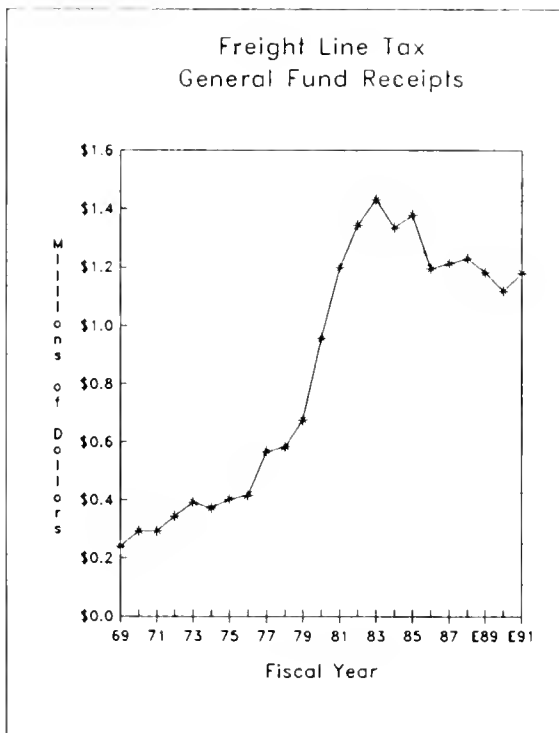


## FREIGHT LINE TAX

The freight line company tax is assessed on the gross earnings of every railroad freight line company operating in Montana. Freight line companies are defined as companies operating or leasing railroad freight cars but not owning the rails over which the cars travel. The tax rate of 5 ½% is applied to the gross earnings derived from business during the calendar year. All monies collected from this tax are deposited in the general fund.

The deregulation of railroads under the Staggers Act of 1980 and the depressed agricultural year of 1985 are responsible for the recent changes in the freight line tax receipt patterns. Revenue forecasts for FY89 and FY90 are projected to decline from FY88 levels due to the CY88 drought and the reduced level of coal production anticipated by coal producers. By FY91, grain shipments are estimated to return to more normal levels and freight rates are expected to increase due to inflationary pressures. Both of these factors should reverse the decline in projected revenues by FY91.

### GENERAL FUND FREIGHT LINE TAX COLLECTIONS



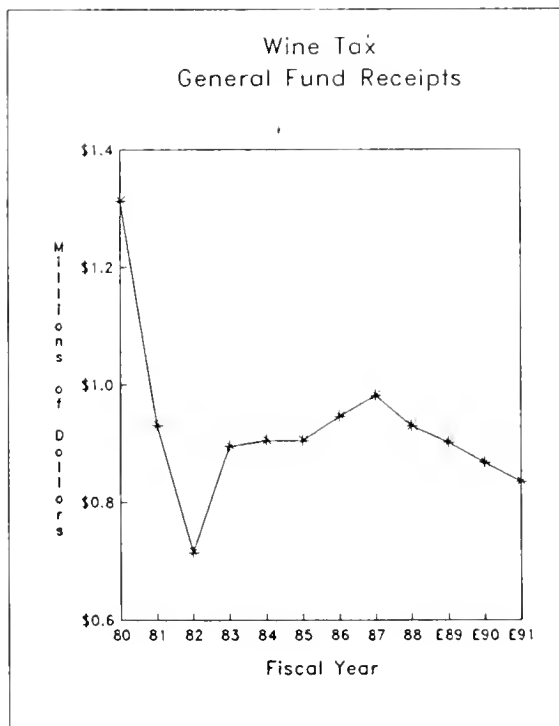
FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	0.293612	
1971	0.293303	-0.11%
1972	0.343828	17.23%
1973	0.391288	13.80%
1974	0.371123	-5.15%
1975	0.402583	8.48%
1976	0.416321	3.41%
1977	0.568326	36.51%
1978	0.582638	2.52%
1979	0.675790	15.99%
1980	0.956356	41.52%
1981	1.200093	25.49%
1982	1.344761	12.05%
1983	1.432164	6.50%
1984	1.334111	-6.85%
1985	1.379418	3.40%
1986	1.195066	-13.36%
1987	1.212219	1.44%
1988	1.229618	1.44%
PROJECTED		
1989	1.181000	-3.94%
1990	1.117000	-5.44%
1991	1.180000	5.67%

## WINE TAX

A wine tax is levied on table wines imported into Montana by wine distributors or the Department of Revenue. The \$.27 per liter tax is distributed in the following manner: 59.26% to the general fund; 30.89% to the Department of Institutions alcoholism account; 9.85% to counties and cities.

Since wine taxes are not based on the value of the commodity, revenues are a function of consumption. Montana's per capita consumption in fiscal year 1988 declined by 5.8%. Total revenues for fiscal years 1989 through 1991 are projected to continue this trend but at a slower rate of decline. HB 21, which raised the legal drinking age from 19 to 21, is projected to decrease revenues in each year of the forecast period. By fiscal year 1990, the total effect of HB 21 will be realized due to the grandfather language contained in the legislation.

### GENERAL FUND WINE TAX COLLECTIONS



FISCAL YEAR	TOTAL COLLECTIONS (MILLION \$)	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970			
1971			
1972			
1973			
1974			
1975			
1976			
1977			
1978			
1979			
1980	1.595441	1.312406	
1981	1.129641	0.931611	-29.02%
1982	0.888715	0.715246	-23.22%
1983	1.119855	0.895884	25.26%
1984	1.131132	0.904905	1.01%
1985	1.132060	0.905648	0.08%
1986	1.558356	0.946287	4.49%
1987	1.657783	0.982402	3.82%
1988	1.569139	0.929861	-5.35%
PROJECTED			
1989	1.521000	0.901000	-3.05%
1990	1.464000	0.868000	-3.75%
1991	1.409000	0.835000	-3.76%

## OTHER REVENUE SOURCES

There are a number of other taxes, fees and fines that individually generate less than \$2.5 million annually to the general fund.

The statutes governing these taxes, fees and fines are frequently changed, thereby making the comparison of tax years difficult. However, if all the revenue sources are treated as a group, general trends can be identified.

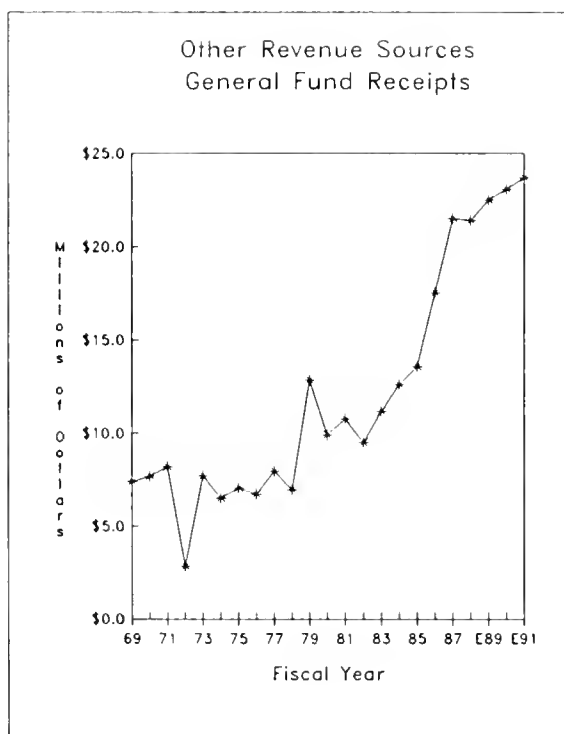
Since FY81, revenues in this category have grown an average of 5.6% per year after adjusting for one-time receipts. However, from fiscal year 1985 to 1986 and from fiscal year 1987 to 1988 revenues increased by an average of 3.5%. It is

assumed this trend will continue throughout the forecast period.

Also included in this category is the anticipated revenue from video poker, keno and bingo machine net income taxes, vehicle license fees, public service commission fees, transfers from the capital land grant account and the public contractor's gross receipts tax. Each of these components are estimated individually and are combined with this category after the 3.5% general growth rate is applied.

The revenue collections for FY87 included proceeds from the sale of the Montana Youth Treatment Center at Billings and the transfer of funds from the crime victims and junk vehicle accounts.

### GENERAL FUND OTHER REVENUE COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION \$)	PERCENT CHANGE
1970	7.669004	
1971	8.194068	6.85%
1972	2.847773	-65.25%
1973	7.682533	169.77%
1974	6.483429	-15.61%
1975	7.055104	8.82%
1976	6.689457	-5.18%
1977	7.920975	18.41%
1978	6.952651	-12.22%
1979	12.834864	84.60%
1980	9.896386	-22.89%
1981	10.755539	8.68%
1982	9.476049	-11.90%
1983	11.176082	17.94%
1984	12.590802	12.66%
1985	13.558652	7.69%
1986	17.539483	29.36%
1987	21.503703	22.60%
1988	21.421351	-0.38%
PROJECTED		
1989	22.509000	5.08%
1990	23.096000	2.61%
1991	23.723000	2.71%



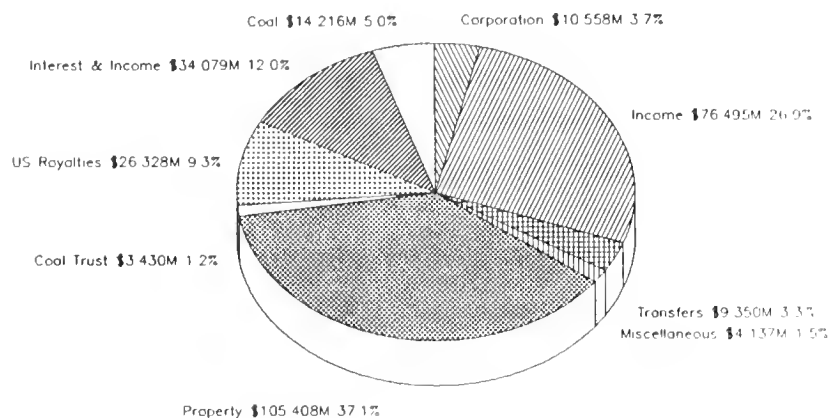
The major components of foundation program revenues are individual income tax, corporation income tax, coal severance tax, interest and income earnings, US oil and gas royal-

ties, education trust interest earnings and mandatory and permissive tax levies. These sources are depicted below.

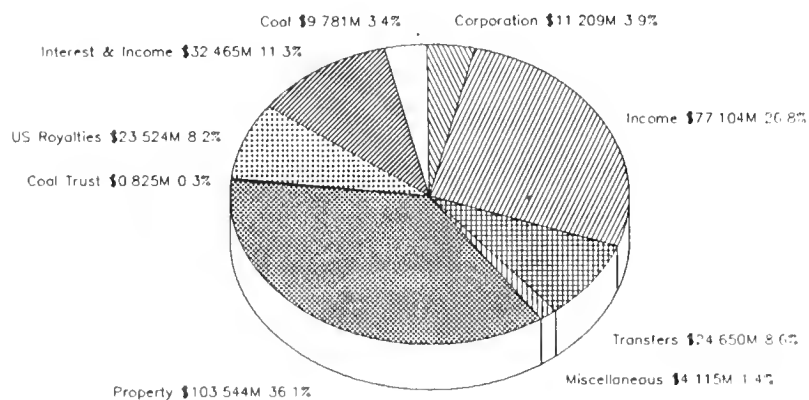
**Foundation Program Revenue Estimates**  
**Current Law Status**  
(In Millions)

Revenue Component	Actual FY 1988	Estimated FY 1889	Estimated FY 1990	Estimated FY 1991	Estimated FY 88-89	Estimated FY 90-91
<b>State Revenue</b>						
Income Tax	76.494683	77.104000	76.042000	80.908000	153.599000	156.950000
Corporation Tax	10.557529	11.209000	11.271000	11.332000	21.767000	22.603000
Coal Severance Tax	14.215851	9.781000	2.010000	1.736000	23.997000	3.746000
Interest & Income	34.078544	32.465000	33.485000	34.353000	66.544000	67.838000
US Oil & Gas Royalties	26.327798	23.524000	22.686000	23.494000	49.852000	46.180000
Education Trust Interest	3.430171	0.825000	0.926000	1.148000	4.255000	2.074000
Miscellaneous Revenue	9.350000	24.650000	0.000000	0.000000	34.000000	0.000000
County Levy Surplus	10.558855	0.000000	0.000000	0.000000	10.559000	0.000000
<b>Total State</b>	<b>\$185.013431</b>	<b>\$179.558000</b>	<b>\$146.420000</b>	<b>\$152.971000</b>	<b>\$364.573000</b>	<b>\$299.391000</b>
Statewide Taxable Valuation	1977.891006	1942.914000	1899.969000	1869.831000	NA	NA
<b>County Revenue</b>						
Mandatory Levy	78.446240	87.431000	85.499000	84.142000	165.877000	169.641000
Elementary Transportation	-3.725853	-3.717000	-3.717000	-3.717000	-7.443000	-7.434000
Cash Reappropriated	1.699658	1.566000	2.487000	3.126000	3.266000	5.613000
Forest Funds	1.464581	1.465000	1.465000	1.465000	2.930000	2.930000
Taylor Grazing	0.102104	0.102000	0.102000	0.102000	0.204000	0.204000
Miscellaneous Revenue	4.310324	4.310000	4.310000	4.310000	8.620000	8.620000
High School Tuition	-0.838280	-0.838000	-0.838000	-0.838000	-1.676000	-1.676000
<b>Total County</b>	<b>\$81.458774</b>	<b>\$90.319000</b>	<b>\$89.308000</b>	<b>\$88.590000</b>	<b>\$171.778000</b>	<b>\$177.898000</b>
<b>District Revenue</b>	<b>16.402650</b>	<b>16.113000</b>	<b>15.756000</b>	<b>15.507000</b>	<b>32.516000</b>	<b>31.263000</b>
Permissive Levy						
Miscellaneous Revenue	1.124619	1.227000	1.371000	1.567000	2.352000	2.938000
<b>Total District</b>	<b>\$17.527269</b>	<b>\$17.340000</b>	<b>\$17.127000</b>	<b>\$17.074000</b>	<b>\$34.868000</b>	<b>\$34.201000</b>
<b>Total State,County,District</b>	<b>\$283.999474</b>	<b>\$287.217000</b>	<b>\$252.855000</b>	<b>\$258.635000</b>	<b>\$571.219000</b>	<b>\$511.490000</b>

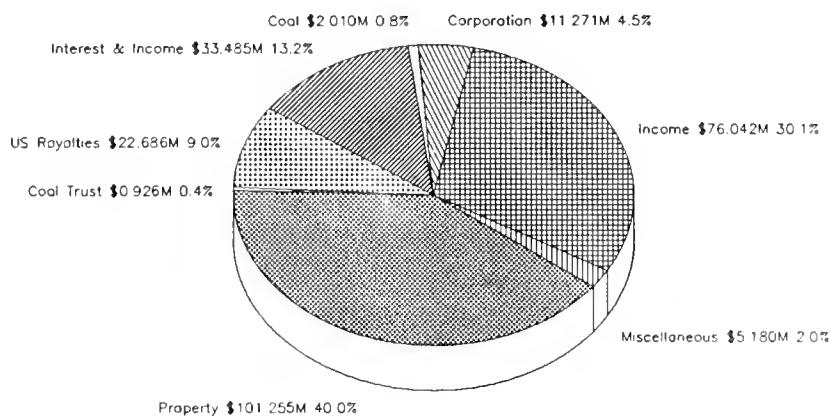
### Foundation Program Revenue Analysis Contribution By Source For FY 88



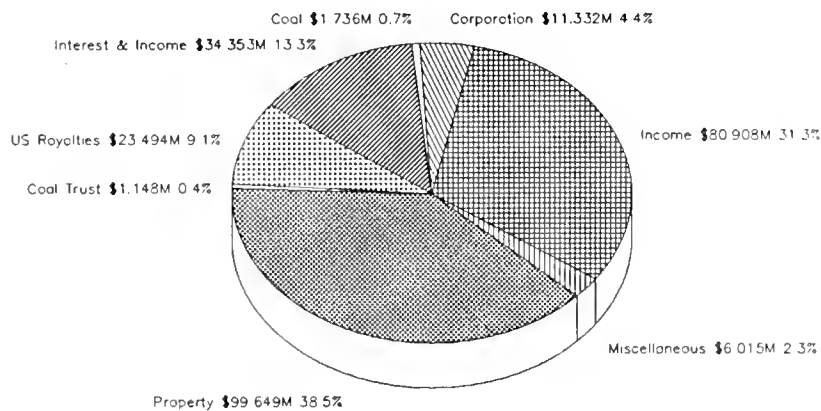
### Foundation Program Revenue Analysis Contribution By Source For FY 89



# Foundation Program Revenue Analysis Contribution By Source For FY 90



# Foundation Program Revenue Analysis Contribution By Source For FY 91



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